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Checklists and illustrative financial statements for not-for-profit organizations : a financial accounting and reporting practice aid, June 1994 edition

American Institute of Certified Public Accountants. Technical Information Division

Linda Delahanty

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AICPA

**JUNE 1994
EDITION**

***Checklists
and Illustrative
Financial Statements
for Not-for-Profit
Organizations***

*A Financial Accounting and
Reporting Practice Aid*

AMERICAN

INSTITUTE OF

CERTIFIED

PUBLIC

ACCOUNTANTS

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- Checklists and Illustrative Financial Statements for Savings Institutions*
- Checklists and Illustrative Financial Statements for State and Local Governmental Units*

AICPA

**JUNE 1994
EDITION**

Checklists and Illustrative Financial Statements for Not-for-Profit Organizations

JUL 15 1994

*A Financial Accounting and
Reporting Practice Aid*

*Edited by
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Technical Manager, Technical Information Division*

*Checklists and Illustrative Financial Statements for
Not-for-Profit Organizations has not been approved,
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TABLE OF CONTENTS

	PAGE
Introduction	3
Checklists—General	5
Financial Statements and Notes Checklist.....	7
Auditors' Reports Checklist	27
Auditors' Reports on Audits Performed Under Government Auditing Standards and OMB Circular A-133 Checklist	31
Accountants' Reports on Compiled or Reviewed Financial Statements Checklist.....	37
Illustrative Financial Statements	43

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR NOT-FOR-PROFIT ORGANIZATIONS

.01 The checklists and illustrative financial statements included in this section are designed to be applied to the not-for-profit organizations covered in AICPA Statement of Position 78-10 and to voluntary health and welfare organizations. They are not designed to be applied to the financial statements of colleges, universities, hospitals or governmental units.

.02 The checklists and illustrative financial statements have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. At the request of certain AICPA members, these checklists and illustrative financial statements are also being made available for purchase by AICPA members subject to their recognition of the following:

- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements have been updated through SAS No. 72, SSARS No. 7, FASB Statement of Financial Accounting Standards No. 115, FASB Interpretation No. 39, FASB Technical Bulletin No. 90-1, AICPA Statement of Position 93-8, Practice Bulletin 10, the AICPA Audit and Accounting Guides, *Audits of Certain Not-for-Profit Organizations* and *Audits of Voluntary Health and Welfare Organizations* (with conforming changes as of May 1, 1994), and EITF Consensuses adopted up to and including the March 24, 1994, Emerging Issues Task Force meeting. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.
- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is needed to determine whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being presented.

.03 Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.

Introduction

.01 The basic financial statements of a not-for-profit organization are a balance sheet and a statement of activity (also referred to as a statement of support, revenue, expenses, capital additions, and changes in fund balances, or similar titles), and a statement of cash flows¹ and/or a statement of functional expenses, depending on whether the organization follows the AICPA Audit and Accounting Guide, *Audits of Certain Not-For-Profit Organizations*, or the AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations*.² If a reconciliation between beginning and ending fund balances is not included in the statement of activity, a separate statement of changes in fund balances ordinarily would be presented. Many organizations with multiple funds often present comparative totals of all funds for one or more prior periods. The basic financial statements of the current period often are presented on a comparative basis with those of one or more prior periods.

.02 Not-for-profit organizations generally present their expenses classified on a functional basis (according to the purpose for which costs are incurred, such as specific programs and supporting services). In some instances a functional classification is not necessary due to the nature of the organization (e.g., private foundations, cemeteries, and country clubs) and, therefore, the object basis (according to their natural classification, such as salaries, employee benefits, and purchased services) is used.

.03 A wide variety of users are interested in the financial statements of not-for-profit organizations. Among the principal users are (1) contributors to the organization, (2) beneficiaries of the organization, (3) the organization's trustees or directors, (4) employees of the organization, (5) governmental units, (6) the organization's creditors and potential creditors, and (7) constituent organizations.

.04 A principal purpose of a not-for-profit organization's financial statements is to communicate the ways resources have been used to carry out the organization's objectives. It requires reporting the nature and amount of available resources, the uses made of the resources, and the net changes in fund balances during the period. In addition, while adequate measures of program accomplishment generally are not available in the context of present financial statements, the financial statements should identify the organization's principal programs and their costs. A third aspect of financial reporting for not-for-profit organizations is disclosure of the degree of control exercised by donors over use of resources. A fourth aspect is that the financial statements of a not-for-profit organization should help the user evaluate the organization's ability to carry out its fiscal objectives.

.05 Many not-for-profit organizations receive resources restricted for particular purposes. To facilitate observance of limitations, the accounts are often maintained using fund accounting, by which resources are classified for accounting and reporting purposes into funds associated with specified activities or objectives. Each fund is a separate accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance, and changes in the fund balance. Although separate accounts are maintained for each fund, the usual practice in preparing financial statements is to group funds that have similar characteristics.

¹ Not-for-profit organizations are not subject to FASB Statement No. 95, *Statement of Cash Flows*. Therefore, they may present either a statement of changes in financial position or a statement of cash flows.

In June 1993, the FASB issued FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, that requires all not-for-profit organizations to provide a statement of financial position, a statement of activities, and a statement of cash flows as their basic financial statements. This Statement is effective for annual financial statements issued for fiscal years beginning after December 15, 1994.

² The AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations*, states that because the information that would be presented in a statement of changes in financial position as discussed in Accounting Principles Board Opinion 19 will, in most cases, be readily apparent from other financial statements, such a statement is generally not required.

.06 In June 1993, the FASB issued Statement of Financial Accounting No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements of Not-for-Profit Organizations*. Statement No. 116 changes the accounting for contributions as presently set forth in SOP 78-10 and in the Audit of Voluntary Health and Welfare Organizations Guide. Statement No. 117 establishes standards for not-for-profit organizations general purpose external financial statements. FASB Statements No. 116 and 117 are effective for financial statements issued for fiscal years beginning after December 15, 1994, except for organizations with less than \$5 million in total assets and less than \$1 million in annual expenses. For those organizations, the Statements are effective for fiscal years beginning after December 15, 1995. Earlier application is encouraged.

These Statements are not reflected in these checklists and illustrative financial statements as few organizations have adopted these pronouncements at this time. The 1995 edition of these checklists and illustrative financial statements will be revised to reflect these new pronouncements. Practitioners whose clients have adopted FASB Statements No. 116 and 117 early should determine the effect to these Statements when using these checklists and illustrative financial statements.

How These Checklists Apply to Not-For-Profit Versus Voluntary Health and Welfare Organizations

.07 Users of these checklists will notice that some steps are referenced only to the audit guide for not-for-profit organizations or SOP 78-10, but not to the Voluntary Health and Welfare Organization's guide. Even though these disclosures are not specifically required by the Voluntary Health and Welfare Organization guide, users are advised to consider the appropriateness of including them in voluntary health and welfare organizations' financial statements.

Checklists—General

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners, as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins and Interpretations thereof, and to certain other literature described as “established accounting principles.” The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialing each question or point to show that it has been considered. The format used herein is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist, while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: “not applicable,” “not material,” “material,” “in statements,” and “in notes” (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers: “disclosed” and “not applicable.” Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

.05 If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

ARB =	AICPA Accounting Research Bulletin
APB =	AICPA Accounting Principles Board Opinion
SFAS =	FASB Statement of Financial Accounting Standards
SAS =	AICPA Statement on Auditing Standards
FASBI =	FASB Financial Accounting Standards Board Interpretation
TB =	Technical Bulletin issued by the staff of the FASB ¹
AC =	Reference to section number in FASB <i>Accounting Standards—Current Text</i>
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
AAG-NPR =	AICPA Audit and Accounting Guide, <i>Audits of Certain Not-for-Profit Organizations</i> (with conforming changes as of May 1, 1994)
AAG-VHW =	AICPA Industry Audit Guide, <i>Audits of Voluntary Health and Welfare Organizations</i> (with conforming changes as of May 1, 1994)
SOP =	AICPA Statement of Position
EITF =	Emerging Issues Task Force Consensuses

.03 Some questions in this checklist do not cite a specific authoritative reference but indicate that the disclosure is generally accepted. Most firms disclose that information even though a requirement to do so in the authoritative literature cannot be identified.

.04 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
I. General			
A. Titles and References			
1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
2. Does each statement include a general reference that the notes are an integral part of the financial statement presentation? [Generally Accepted]	_____	_____	_____
3. For each period, are the following financial statements presented?			
a. Balance sheet?	_____	_____	_____
b. Statement of activity?	_____	_____	_____

¹ The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Statement of changes in fund balance (if not shown as part of the Statement of Activity)?	_____	_____	_____
Voluntary Health and Welfare Organizations (VHWO) Omit Step d.			
d. Statement of changes in financial position?	_____	_____	_____
Organizations Covered Under SOP 78-10 Omit Steps e. and f.			
e. Statement of functional expenses?	_____	_____	_____
f. Supplemental schedule of changes in designated portions of the unrestricted fund (optional)?	_____	_____	_____
[SOP 78-10, pars. 16—18; AAG-NPR, par. 1.10; AAG-VHW, pars. 1.14 and 7.05]			
B. Disclosure of Accounting Policies and Other Disclosures			
1. Is a description of all significant accounting policies adopted and followed presented as an integral part of the financial statements?	_____	_____	_____
[APB 22, par. 9 (AC A10.103)]			
a. Are the organization's accounting policies disclosed for:			
(1) Grant commitments?	_____	_____	_____
(2) Carrying value of investments?	_____	_____	_____
(3) Carrying value of property, plant, equipment, and collections?	_____	_____	_____
(4) Pledges receivable?	_____	_____	_____
[Generally Accepted]			
2. If the organization prepared its financial statements on a comprehensive basis of accounting other than generally accepted accounting principles (GAAP), is disclosure made of the basis of presentation and how that basis differs from GAAP?	_____	_____	_____
[SAS 62, par. 10 (AU 623.10)]			
3. Does disclosure of significant accounting policies encompass important judgments as to the appropriateness of principles concerning recognition of revenue and allocation of asset costs to current and future periods?	_____	_____	_____
[APB 22, par. 12 (AC A10.105)]			
4. Does disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided?	_____	_____	_____
[APB 22, par. 14 (AC A10.107)]			
5. Do the financial statements identify the organization's:			
a. Principal programs?	_____	_____	_____
b. Principal program costs?	_____	_____	_____
[SOP 78-10, par. 9]			
6. Do the financial statements or notes disclose the degree of control exercised by donors over the use of resources?	_____	_____	_____
[SOP 78-10, par. 9]			
C. Accounting Changes			
1. For an accounting change, does disclosure in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change and a clear explanation of why the newly adopted principle is preferable?	_____	_____	_____
c. Effect on excess of revenues over expenses?	_____	_____	_____
[APB 20, par. 17 (AC A06.113)]			
2. Is a correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:			
a. Nature and effect of the error in previously issued financial statements?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Effect of its correction on excess of revenues over expenses before and after extraordinary items? [APB 20, par. 37 (AC A35.105); SFAS 109, par. 228n (AC A35.103); APB 9, par. 26 (AC A35.107)]	_____	_____	_____
c. For single period statements, the effects of the prior-period adjustment on fund balance at the beginning of the period? [APB 9, par. 26 (AC A35.107)]	_____	_____	_____
D. Comparative Financial Statements			
1. Has presentation of comparative statements been considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102); SOP 78-10, par. 41)]	_____	_____	_____
2. Are the disclosures included in the prior year's financial statements repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes have occurred in the manner of, or basis for, presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
E. Financial Instruments			
1. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument: ²			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	_____	_____	_____
(2) The cash requirements of those instruments?	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB 22 (AC A10)? [SFAS 105, par. 17 (AC F25.112)]	_____	_____	_____
2. For financial instruments with off-balance-sheet credit risk (except for those excluded in SFAS 105), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument:			
a. The amount of accounting loss the organization would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and if the collateral or other security, if any, for the amount due proved to be of no value to the organization?	_____	_____	_____
b. The organization's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the organization's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)]	_____	_____	_____
3. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____

² Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 (AC F25), “class of financial instrument” refers to those classifications.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The amount of the accounting loss due to credit risk the organization would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and if the collateral or other security, if any, for the amount due proved to be of no value to the organization?	_____	_____	_____
c. The organization's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the organization's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
4. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, either in the body of the financial statements or in the accompanying notes? ³ [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
5. Are the methods and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
6. If it is not practicable to estimate the fair market value of a financial instrument, are the following disclosed:			
a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25.115G)]	_____	_____	_____
F. Nonmonetary Transactions			
1. Do disclosures for nonmonetary transactions during the period include:			
a. Nature of the transactions?	_____	_____	_____
b. Basis of accounting for the assets transferred?	_____	_____	_____
c. Gains or losses recognized on the transfers? [APB 29, par. 28 (AC C11.102 and N35.120); FASBI 30 (AC N35.114—.119)]	_____	_____	_____
G. Contingencies and Commitments			
1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)]	_____	_____	_____
2. For loss contingencies not accrued, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and C59.111)]	_____	_____	_____
3. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)]	_____	_____	_____
4. Are the nature and amount of guarantees disclosed (e.g., indebtedness of others)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 2—3 (AC C59.114)]	_____	_____	_____
5. Are gain contingencies adequately disclosed to avoid any misleading implications about the likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____

³ For organizations with less than \$150 million in total assets in the current statement of financial position, the effective date for SFAS 107 disclosures is for financial statements issued for fiscal years ending after December 15, 1995. However, earlier application is encouraged.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Is there adequate disclosure of commitments, such as those for capital expenditures, grants to be awarded to others, restrictive covenants in financing agreements, inventory purchase agreements, and employment contracts? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
7. Are encumbrances, appropriations of fund balance, unspecified reserves, and other commitments not meeting the criteria of SFAS 5, paragraph 8, not reported as expenses or liabilities (these may be reported as segregations of fund balance on the balance sheet)? [SFAS 5, pars. 14—15 (AC C59.116.117); SOP 78-10, par. 12]	_____	_____	_____
8. Are commitments to fund future grants that are not unconditional grants at the balance-sheet date disclosed? [SOP 78-10, par. 102]	_____	_____	_____
H. Subsequent Events			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, 560.07 and 561.01—.10 (AU 560.03—.04, 560.07 and 561.01—.10)]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05—.07 and 561.01—.10 (AU 560.05—.07 and 561.01—.10)] (Consider the appropriateness of dual dating the auditor's report if a subsequent event is disclosed in the financial statements) [SAS 1, sec. 530.05 (AU 530.05)]	_____	_____	_____
I. Pension Plans—(For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 (AC Pe5))			
1. If there is a defined benefit plan, do disclosures include:			
a. A description of the plan, including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 54a (AC P16.150a)]	_____	_____	_____
b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components? ⁴ [SFAS 87, par. 54b (AC P16.150b)]	_____	_____	_____
c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	_____	_____	_____
(3) The amount of unrecognized prior-service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____

⁴ The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 (AC P16). That net total includes:

- The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets).
- Amortization of the net gain or loss from earlier periods.
- Amortization of unrecognized prior-service cost.
- Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)?	_____	_____	_____
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?	_____	_____	_____
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 (AC P16.129—.130) (which is the net result of combining the preceding six items)? [SFAS 87, par. 54c (AC P16.150c)]	_____	_____	_____
d. The weighted-average assumed discount rate(s) and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets? [SFAS 87, par. 54d (AC P16.150d)]	_____	_____	_____
e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties? [SFAS 87, par. 54e (AC P16.150e)]	_____	_____	_____
f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 (AC P16.120 and .127), and the existence and nature of the commitment discussed in SFAS 87, paragraph 41 (AC P16.135)? [SFAS 87, par. 54e (AC P16.150e)]	_____	_____	_____
g. If more than one defined benefit plan exists:			
(1) Are the required disclosures above aggregated for all of the employer's single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?	_____	_____	_____
(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets? [SFAS 87, par. 56 (AC P16.153)]	_____	_____	_____
2. If there is a defined contribution plan, are the following items disclosed:			
a. A description of the plan(s), including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan and the substance of the plan is to provide a defined benefit, is Step 1. a.—g. above followed? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
3. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan(s), including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 69a (AC P16.166a)]	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69b (AC P16.166b)]	_____	_____	_____
c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations that is either probable or reasonably possible, are the provisions of SFAS 5 (AC C59) applied? [SFAS 87, par. 70 (AC P16.167)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. If there is a settlement or curtailment of a defined benefit pension plan or termination benefits under such plan, do disclosures include:			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
5. If the organization terminates a defined benefit plan and (1) contributes the assets withdrawn to a defined contribution plan, (2) the amount contributed is in excess of the employer's required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, are the following considered for the defined contribution plan:			
a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds?	_____	_____	_____
b. Is the unallocated amount treated as if it were part of the employer's investments portfolio and recorded as an asset?	_____	_____	_____
(1) Is the income attributed to such securities, including dividends, interest, and realized gains and losses, reported in a manner consistent with the employer's reporting of similar items?	_____	_____	_____
J. Postretirement Benefits Other Than Pensions (See Exhibit A)			
1. If there are one or more defined benefit postretirement plans, do disclosures include:			
a. A description of the substantive plan(s) that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s), and the existence and nature of any commitment to increase monetary benefits provided by the postretirement benefit plan, employee groups covered, types of benefits provided, funding policy, types of assets held and significant non-benefit liabilities, and the nature and effect of significant matters affecting the comparability of information for all periods presented, such as the effect of a business combination or divestiture?	_____	_____	_____
b. The amount of net periodic postretirement benefit cost showing separately the service cost component, the interest cost component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or transition asset, and the net total of other components? ⁵	_____	_____	_____
c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?	_____	_____	_____
(3) The amount of unrecognized prior-service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(5) The amount of any remaining unrecognized transition obligation or transition asset?	_____	_____	_____

⁵ The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106 (AC P40). That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, and offset or a supplement to the actual return on plan assets).
- b. Amortization of unrecognized prior-service cost.
- c. Amortization of the net gain or loss from earlier periods.
- d. Any gain or loss recognized due to a temporary deviation from the substantive plan (of SFAS 106, par. 61 (AC P40.156)).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(6) The amount of net postretirement benefit asset or liability recognized in the statement of financial position, which is the net result of combining the preceding five items?	_____	_____	_____
d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible charges) for the next year and a general description of the direction and pattern of change in the assumed trend rate(s) thereafter, together with the ultimate trend rate(s), and when that rate(s) is expected to be achieved?	_____	_____	_____
e. The weighted average of the assumed discount rate(s) and rate(s) of compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted-average of the expected long-term rate(s) of return on plan assets?	_____	_____	_____
f. The effect of a one-percentage point increase in the assumed health care cost trend rates for each future year on the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost; and the accumulated postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions should be held constant and the effects should be measured based on the substantive plan that is the basis for the accounting)?	_____	_____	_____
g. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties?	_____	_____	_____
h. Any alternative amortization method used pursuant to paragraph 53 or 60 of SFAS 106 (e.g., a straight-line amortization of the cost over the average remaining years of service to full eligibility for benefits of the active plan participants)?	_____	_____	_____
i. The amount of gain or loss recognized during the period for a settlement or curtailment and a description of the nature of the event(s)?	_____	_____	_____
j. The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)? [SFAS 106, par. 74a—j (AC P40.169a—j)]	_____	_____	_____
2. If more than one defined benefit postretirement plan exists:			
a. Are the disclosures required by Step J.1. above aggregated for all of an employer's single-employer defined benefit post-retirement plans or disaggregated in groups so as to provide the most useful information (except, for purposes of the disclosures required by Step J.1.c. above, the aggregate plan assets and the aggregate accumulated postretirement benefit obligation of the underfunded plans should be separately disclosed)? [SFAS 106, par. 77 (AC P40.172)]	_____	_____	_____
b. Are plans that primarily provide postretirement health care benefits and plans that primarily provide other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans? [SFAS 106, par. 78 (AC P40.173)]	_____	_____	_____
3. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan(s), including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of postretirement benefit cost recognized during the period, if available (otherwise, the amount of the aggregate required contribution for the period to the general health and welfare benefit plan that provides health and welfare benefits to both active employees and retirees)? [SFAS 106, par. 82 (AC P40.178)]	_____	_____	_____

	Yes	No	N/A
c. Are the provisions of SFAS 5 (AC C59) applied if the situation arises where withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation and it is either probable or reasonably possible that:			
(1) An employer would withdraw from the plan under circumstances that would give rise to an obligation?			
or			
(2) An employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage? [SFAS 106, par. 83 (AC P40.179)]			
4. If there is one or more defined contribution postretirement plans, are the following items disclosed separately from defined benefit postretirement plan disclosures:			
a. A description of the plan(s), including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?			
b. The amount of cost recognized during the period? [SFAS 106, par. 106 (AC P40.198)]			
K. Related-Parties			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationship(s) involved (e.g., affiliate companies, officers, etc.)?			
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which a statement of activity is presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?			
c. The dollar amounts of transactions for each of the periods for which a statement of activity is presented and the effects of any change in the method of establishing the terms from that used in the preceding period?			
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2—4 (AC R36.102—.104)]			
2. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting entity and one or more other enterprises are under common ownership or management control, and the existence of the control could result in operating results or financial position of the reporting entity being significantly different from those that would have been obtained if the entity were autonomous? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]			
3. Affiliated Organizations			
a. If other organizations are affiliated with, or otherwise financially related to, the organization under audit, are combined financial statements considered? [AAG-NPR, par. 7.01; AAG-VHW, pars. 7.07—.11]			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. If combined financial statements are not necessary, is the affiliation disclosed? [AAG-NPR, par. 7.01]	_____	_____	_____
4. With respect to disclosure of related-party transactions, is consideration given to disclosing transactions with chapters, foundations, auxiliaries, guilds, trusts, etc., as well as to members of management and the governing board and other organizations with which such parties are affiliated? [SOP 78-10, par. 49]	_____	_____	_____
L. Extraordinary Items			
1. Are extraordinary items segregated and shown on the face of the Statement of Activity using the main caption "extraordinary items"?	_____	_____	_____
2. Are descriptive captions and amounts presented for individual extraordinary events or transactions, preferably on the face of the Statement of Activity?	_____	_____	_____
3. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. For an adjustment of an extraordinary item reported in a prior period:			
a. Is the adjustment classified separately as an extraordinary item in the current period?	_____	_____	_____
b. Are the nature, origin, and amount of the item disclosed? [SFAS 16, par. 16(c) (AC I17.119)]	_____	_____	_____
M. Advertising Costs			
1. Do the disclosures for advertising costs include:			
a. The accounting policy selected from the two alternatives in paragraph 26 of SOP 93-7, including whether such costs are expensed as incurred or the first time the advertising takes place?	_____	_____	_____
b. A description of the direct-response-advertising reported as assets (if any), the related accounting policy and the amortization method and period?	_____	_____	_____
c. The amount charged to advertising expense for each statement of activity presented, with separate disclosure of amounts, if any, representing a write-down of the capitalized advertising costs to net realizable value and the reasons for such write-down?	_____	_____	_____
d. The total amount of advertising reported as assets in each balance sheet presented? [SOP 93-7, par. 49; APB 17, pars. 30 and 31 (AC I60.111—.112)]	_____	_____	_____

II. Balance Sheet

A. General

1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications, with totals presented for current assets and current liabilities? [ARB 43, Ch. 3A; SFAS 78, pars. 5 and 13 (AC BO5.102—.109B); SFAS 6, par. 15 (AC BO5.118); FASBI 8, par. 3 (AC BO5.117); TB 79-3 (AC BO5.501—.503); SOP 78-10, pars. 23 and 24]	_____	_____	_____
2. Are assets not expected to be realized during the current operating cycle classified as noncurrent? [ARB 43, Ch. 3A, pars. 5—6 (AC BO5.106—.107)]	_____	_____	_____
3. Are valuation allowances for assets shown as deductions from their related assets, with appropriate disclosure? [APB 12, par. 3 (AC V18.102); AAG-VHW, par. 4.12]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. If the organization restricts resources and elects not to report on a fund accounting basis, are all material restrictions disclosed? [SOP 78-10, par. 15]	_____	_____	_____
5. Is the need for disclosure of the impact of a new FASB statement issued but not yet effective where restatement of prior periods is required considered? [SAS 1, sec. 9410.13—.18 (AU 9410.13—.18)]	_____	_____	_____
B. Cash			
1. Is separate disclosure made of restricted cash? [ARB 43, Ch. 3A, par. 6 (AC BO5.107)]	_____	_____	_____
C. Investments or Marketable Securities			
1. For Organizations Covered by SOP 78-10:			
a. If investments in marketable securities are not carried at market value, is the market value for that group as of the balance-sheet date disclosed? [SOP 78-10, par. 79]	_____	_____	_____
b. Do the notes to financial statements summarize total realized and unrealized gains and losses and income earned from investments held by all funds, except life income and custodial funds? [SOP 78-10, par. 83]	_____	_____	_____
2. For VHWO:			
a. Is the basis of carrying investments the same in all funds and clearly disclosed in the financial statements?	_____	_____	_____
(1) If carried at cost, is the total market value of investments at the balance-sheet date shown parenthetically for each fund, or disclosed in the notes?	_____	_____	_____
(2) If carried at market value, is the cost disclosed parenthetically for each fund or disclosed in the notes?	_____	_____	_____
(3) Is the unrealized appreciation (or depreciation) in such investments at the beginning and end of the year disclosed in the notes? [AAG-VHW, par. 2.05]	_____	_____	_____
D. Receivables ⁶			
1. Are accounts and notes receivable due from officers, employees, and affiliated organizations shown separately, with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]	_____	_____	_____
2. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	_____	_____	_____
b. Does the disclosure include the effective interest rate and face amount of the note?	_____	_____	_____
c. Is amortization of discount or premium reported as interest in the statement of activity? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
3. Are unearned discounts, finance charges and interest included in the face amount of receivables shown as a deduction from the related receivables? [APB 6, par. 14 (AC B05.197A, note 3)]	_____	_____	_____

⁶ In June 1993, the FASB issued Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*, which changes the accounting for contributions as presently set forth in SOP 78-10 and in the *Audit of Voluntary Health and Welfare Organizations* guide. The Statement is effective for fiscal years beginning after December 15, 1994, except for not-for-profit organizations with less than \$5 million in total assets and less than \$1 million in annual expenses. For those organizations the Statement is effective for financial statements issued for fiscal years beginning after December 15, 1995. Because few organizations are expected to elect early adoption of this Statement, it is not incorporated in these checklists.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Are legally enforceable pledges, grants, and reimbursements receivable, net of allowance for uncollectible amounts, recorded? [SOP 78-10, pars. 64—66; AAG-NPR par. 5.07; AAG-VHW pars. 4.12 and 4.13]	_____	_____	_____
E. Property and Equipment ⁷ VHW Omit Step 1.			
1. Are the amounts of depreciation provided on (1) assets carried at historical cost and (2) assets carried on a basis other than historical cost separately disclosed? [SOP 78-10, par. 110]	_____	_____	_____
2. Are the following amounts disclosed:			
(1) Depreciation expense for each period?	_____	_____	_____
(2) Balances of major classes of depreciable assets by nature or function at the balance-sheet date?	_____	_____	_____
(3) Accumulated depreciation, either by major classes of assets or in total?	_____	_____	_____
(4) The method(s) used in computing depreciation with respect to major classes of depreciable assets? [SFAS 93, par. 5 (AC D40.105); SOP 78-10, par. 108]	_____	_____	_____
3. Is the amount of capitalized interest disclosed? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
VHW Omit Step F.			
F. Collections of Works of Art and Similar Items ⁸			
1. If the organization has inexhaustible collections usually associated with museums, art galleries, botanical gardens, libraries or similar entities, and if such collections are not capitalized, does the caption "Collections" appear on the balance sheet with no amount shown, but with a reference to a note that describes the collection? [SOP 78-10, par. 113]	_____	_____	_____
2. Do the financial statements disclose the cost or contributed value of current period accessions and the nature of and proceeds from deaccessions? [SOP 78-10, par. 114]	_____	_____	_____
G. Other Assets and Deferred Charges			
1. Do disclosures include the method and period of amortization of intangible assets? [APB 17, par. 30 (AC I60.111); APB 22 par. 13 (AC A10.106)]	_____	_____	_____
2. Is an asset (prepaid pension cost) recognized if net periodic pension cost is less than amounts the employer contributed to the plan? [SFAS 87, par. 35 (AC P16.129)]	_____	_____	_____
3. If an additional minimum liability is recognized pursuant to SFAS 87, paragraph 36 (AC P16.130), is an equal amount recognized as an intangible asset, provided that the asset recognized does not exceed the amount of unrecognized prior-service cost? [SFAS 87, pars. 37—38 (AC P16.131 and .132)]	_____	_____	_____
H. Interfund Borrowings			
1. Are restricted funds used in interfund borrowings and any liquidity problems in either fund disclosed?	_____	_____	_____
2. When funds for repayment are not available, are such borrowings considered permanent and recorded as transfers? [SOP 78-10, par. 118]	_____	_____	_____
I. Current Liabilities			
1. Do current liabilities include:			

⁷ See footnote 6.

⁸ See footnote 6.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Obligations for items that entered the operating cycle?	_____	_____	_____
b. Collections received in advance of the delivery of goods or performance of services?	_____	_____	_____
c. Debts that arise from operations directly related to the operating cycle?	_____	_____	_____
d. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short time period?	_____	_____	_____
e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance-sheet date, even though liquidation may not be expected within that period? [ARB 43, Ch. 3A, pars. 7—8 (AC B05.108—.109); SFAS 78, par. 5 (AC B05.109A and B05.118)]	_____	_____	_____
2. Are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7—8 (AC B05.108—.109)]	_____	_____	_____
3. Do current liabilities exclude short-term obligations that the organization intends to refinance on a long-term basis, provided the organization demonstrates the ability to consummate the long-term financing? [SFAS 6, pars. 9—14 (AC B05.113—.116); FASBI 8 (AC B05.117 and B05.138—.139)]	_____	_____	_____
J. Notes Payable and Other Debt			
1. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures, such as assets pledged as collateral, etc.? [SFAS 5, pars. 18—19 (AC C59.120); Generally Accepted]	_____	_____	_____
2. Are the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10b (AC C32.105b)]	_____	_____	_____
3. For unconditional purchase obligations that have been recorded in accordance with SFAS No. 47, paragraph 6, are the aggregate amounts of payments due in the aggregate and for each of the five years following the date of the latest balance sheet presented disclosed? [SFAS 47, par. 10a (AC C32.105a)]	_____	_____	_____
4. If a note is noninterest-bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	_____	_____	_____
b. Does the disclosure include the effective interest rate and face amount of the note?	_____	_____	_____
c. Is amortization of the discount or premium reported as interest in the statement of activity?	_____	_____	_____
d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
5. If a short-term obligation is to be classified as a long-term borrowing per SFAS 6, do disclosures include:			
a. General description of the financing agreement?	_____	_____	_____
b. Terms of any new obligation incurred or expected to be incurred as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]	_____	_____	_____
K. Lessee Leases			
1. For capital leases, do disclosures include:			
a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1))]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Future minimum lease payments as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, par. 16a (AC L10.112a(2))]	_____	_____	_____
c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(3))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which a statement of activity is presented? [SFAS 13, par. 16a (AC L10.112a(4))]	_____	_____	_____
e. Separate identification of:			
(1) Assets recorded under capital leases?	_____	_____	_____
(2) Accumulated amortization of capital leases?	_____	_____	_____
(3) Obligations under capital leases?	_____	_____	_____
(4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112a(5))]	_____	_____	_____
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			
a. Future minimum rental payments required as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases, do disclosures include rental expense for each period for which a statement of activity (or revenue and expenses, etc.) is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements, including but not limited to:			
a. Bases for determining contingent rentals?	_____	_____	_____
b. Existence and terms of any renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictions imposed by lease agreements (e.g., those concerning additional debt and further leasing)? [SFAS 13, par. 16d (AC L10.112d)]	_____	_____	_____
5. Is the nature and extent of leasing transactions with related parties disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
L. Other Liabilities and Deferred Credits			
1. Are grants subject to periodic renewal recorded as expenses and liabilities at the renewal date with disclosure of the remaining commitment? [SOP 78-10, par. 102] VHWO Omit Step #2.	_____	_____	_____
2. Are balances of unexpended restricted gifts, grants and bequests reported as deferred revenue and support on the balance sheet? [SOP 78-10, par. 62]	_____	_____	_____
M. Trust Funds and Gifts of Future Interests			
1. Are funds that are held in trust by others and not under the control of the organization disclosed, either parenthetically in the endowment funds group in the balance sheet or in the notes to the financial statements? [SOP 78-10, par. 122]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Is significant income from such trusts reported separately? [SOP 78-10, par. 122]	_____	_____	_____
3. Is the basis of valuing gifts of future interests (e.g., life income and annuity gifts, and interest-free loans) disclosed? [AAG-NPR, par. 4.27]	_____	_____	_____
4. Is the restrictive nature of other fund groups not mentioned in SOP 78-10 (e.g., those fund groups used to account for resources relating to activities, such as agency or custodial relationships, self-administered pensions, and permanent maintenance funds) disclosed? [SOP 78-10, par. 123]	_____	_____	_____

N. Fund Balances

1. Are unrestricted fund balances, designated for a specific purpose by the governing board of the organization, segregated on the balance sheet? [SOP 78-10, par. 120]	_____	_____	_____
2. Are internally designated fund balances, such as quasi-endowment funds or designated funds, excluded from donor-restricted fund balances, and is a term, such as "other than restricted," used to describe the fund? [AAG-VHW, par. 1.06; SOP 78-10, App. A—definition of quasi-endowment])	_____	_____	_____
3. Are restricted resources, such as endowment funds, shown separately in the fund section of the balance sheet?	_____	_____	_____
4. Is the nature of the restrictions on fund balances and deferred revenues disclosed? [SOP 78-10, par. 21]	_____	_____	_____

III. Statement of Activity (or Statement of Revenue and Expenses, or Statement of Support and Revenue, Expenses, Capital Additions, and Changes in Fund Balances)

A. Fund Accounting

1. Does the statement of activity include the activity in the unrestricted, restricted, plant and endowment funds, as well as other capital funds that represent resources of the organization? [SOP 78-10, par. 26]	_____	_____	_____
2. Are restricted contributions that possess many of the characteristics of capital, and that cannot be spent for program or supporting services because of donor or legal restrictions, recorded as "capital additions" or "nonexpendable additions" and disclosed? [SOP 78-10, par. 28]	_____	_____	_____
3. Are significant restrictions disclosed in the financial statements? [SOP 78-10, par. 59c]	_____	_____	_____
4. If a columnar format is used, do the statements show a "Total All Funds" column (alternative formats are acceptable)? [SOP 78-10, pars. 37—40]	_____	_____	_____
5. If there are capital additions, are captions for the excess (deficiency) of revenue and support over expenses, both before and after capital additions, shown? [SOP 78-10, pars. 30—31]	_____	_____	_____

B. Taxes

1. If the organization is subject to federal excise tax on investment income or to federal and state income taxes on unrelated business income, is the nature of any temporary differences disclosed? [SOP 78-10, par. 103]	_____	_____	_____
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C. Transfers

1. Are transfers of resources among fund groups reported as changes in fund balances under the caption "fund balance at beginning of period"?	_____	_____	_____
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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are transfers required under contractual arrangements with third parties and transfers required as a result of the expiration of a term endowment fund disclosed separately? [SOP 78-10, par. 104]	_____	_____	_____
Organizations Covered Under SOP 78-10 Omit Step #3.			
3. Is the amount of realized (and, when applicable, unrealized) investment gains included in endowment funds that are available for transfer to the unrestricted fund at the discretion of the governing board, and the authority on which such funds may be transferred, disclosed? [AAG-VHW, par. 2.12]	_____	_____	_____
D. Third-Party Reimbursements			
1. If the organization depends significantly on third-party reimbursement arrangements to carry out its program activities, do the financial statements adequately disclose these arrangements? [AAG-NPR, par. 3.18]	_____	_____	_____
E. Donated or Contributed Services⁹			
1. Do the notes to the financial statements disclose the methods used in valuing, recording, and reporting donated or contributed services? [SOP 78-10, par. 70; AAG-VHW, par. 5.07]	_____	_____	_____
2. Do the notes indicate which donated or contributed services are recorded and which are not recorded? [SOP 78-10, par. 70; AAG-VHW, par. 5.07]	_____	_____	_____
F. Donated Materials and Facilities			
1. If donated materials merely pass through the organization to its charitable beneficiaries, and the organization is only an agent for the donors, is that donation not recorded as a contribution? [SOP 78-10, par. 71; AAG-VHW, par. 5.03]	_____	_____	_____
G. Subscription and Membership Income			
1. If dues, assessments, and nonrefundable initiation fees are in substance contributions and services are not to be provided to the member, are they recognized as revenue in the period the organization is entitled to them? [SOP 78-10, par. 84]	_____	_____	_____
H. Fund-Raising¹⁰			
1. If the organization receives significant support from the general public, are the expenses reported on a functional basis presenting separately expenses for program services, fund-raising, membership development, costs incurred in soliciting grants, and management and general activities? [SOP 78-10, pars. 85—88 and 96; AAG-VHW, pars. 6.02—6.07]	_____	_____	_____
2. If revenue from fund-raising affairs is reported net of expenses, are such expenses disclosed? [SOP 78-10, par. 93; AAG-VHW, par. 8.01]	_____	_____	_____
3. Is the total cost of all fund-raising activities disclosed, whether the organization reports expenses on a functional basis or some other basis? [SOP 78-10, par. 94; AAG-VHW, par. 6.13]	_____	_____	_____
4. Do fund-raising expenses include any applicable portion of management salaries, depreciation, and other occupancy expenses? [SOP 78-10, par. 98; AAG-VHW, par. 6.10]	_____	_____	_____

⁹ See footnote 6.

¹⁰ In September 1993, the AICPA issued an exposure draft of a proposed Statement of Position, *Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal*. The proposed SOP would apply to all not-for-profit organizations that report expenses by function and would require reporting the costs of all materials and activities that include a fund-raising appeal as fund-raising expenses, unless a bona-fide program or management and general function has been conducted in conjunction with the appeal for funds.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Are the total support received and the related fund-raising costs for the period disclosed? [SOP 78-10, par. 100; AAG-VHW, par. 6.13]	_____	_____	_____
6. If joint costs of informational materials and activities that include fund-raising appeals are incurred and allocated between fund-raising and the appropriate program or management and general function, are the following disclosed:			
a. The fact that such costs are allocated?	_____	_____	_____
b. The total amount allocated during the period?	_____	_____	_____
c. The portion allocated to each functional expense category? [SOP 87-2, par. 22; AAG-VHW, par. 6.11]	_____	_____	_____
I. Gifts of Future Interest			
1. Annuity Gifts			
a. Is the present value of the actuarially determined liability resulting from such gifts recorded at the date of the gift?	_____	_____	_____
b. Is any excess or deficiency in the amount of an annuity gift over the liability recorded as support in the year of the gift if it may be used immediately for the general purpose of the organization?	_____	_____	_____
c. If the excess is not recorded as support, as noted in Step 1.b. above, is the excess reported as deferred revenue if it is restricted for specific purposes?	_____	_____	_____
d. Is the amount previously recorded as deferred support reflected as support or a capital addition at the future date when the terms of the annuity are met? [SOP 78-10, par. 121]	_____	_____	_____
2. Life Income Gifts			
a. For the principal amount of life income gifts where the donor reserves the right to the income from the gift for life or some other stipulated period, is this principal amount recorded as deferred support in the period the gift is received?	_____	_____	_____
b. Is the amount previously recorded as deferred support reflected as support or a capital addition when the terms of the life income gift are met? [SOP 78-10, par. 121]	_____	_____	_____
VHWO Omit Step #3			
3. Restricted Gifts, Grants, Bequests, and Other Income			
a. Do the notes disclose the changes in deferred restricted amounts of gifts, grants, bequests, and other income? [SOP 78-10, Exhibit 1D, Note 6]	_____	_____	_____
J. Expenses			
1. Is a reasonable allocation of the organization's functional expenses made to various programs and supporting services and is the method of these allocations disclosed? ¹¹ [SOP 78-10, par. 100; AAG-VHW, Ch. 6]	_____	_____	_____
2. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6—7 (AC C38.101—.102)]	_____	_____	_____
K. Wills or Trusts			
1. If the organization is certain to receive sizable, but indeterminable amounts under a will or trust, does the organization make adequate disclosure in a note to the financial statements regardless of the period of time estimated to elapse before the date of receipt (care should be exercised to avoid misleading implications as to the likelihood of realization)? [FASB 5, par. 17 (AC C59.118); SAS 32 (AU 431.02)]	_____	_____	_____

¹¹ See footnote 10.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
IV. Additional Financial Statements			
For Organizations Covered by SOP 78-10:			
A. Statement of Changes in Financial Position ¹²			
1. Is a statement of changes in financial position presented as a basic financial statement for each period for which a statement of activity (or statement of support, revenue, and expenses) is presented? [SOP 78-10, pars. 16 and 17, Exhibit 1C]	_____	_____	_____
2. Does the statement of changes in financial position disclose all financing and investing activities, including capital additions, and changes in deferred support and revenue? [SOP 78-10, par. 34]	_____	_____	_____
B. Statement of Cash Flows ¹³			
1. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of activity (or statement of support, revenue, and expenses) is presented? [SFAS 95, par. 3 (AC C25.101)]	_____	_____	_____
2. Does the statement of cash flows report net cash provided or used by operating, investing, and financing activities and the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents? [SFAS 95, par. 26 (AC C25.124)]	_____	_____	_____
3. Do the notes disclose the organization's accounting policy for determining which items are treated as cash equivalents? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
Note: Any change in policy for determining which items are treated as cash equivalents is a change in accounting principle.			
4. Are the effects of investing and financing transactions that affect the organization's financial position, but do not directly affect cash flows during the period, disclosed? [SFAS 95, par. 6 (AC C25.104)]	_____	_____	_____
5. Does the statement of cash flows separately report:			
a. Cash received from contributors?	_____	_____	_____
b. Cash received from service recipients?	_____	_____	_____
c. Interest and dividends received?	_____	_____	_____
d. Cash collected on pledges?	_____	_____	_____
e. Other operating cash receipts (if any)?	_____	_____	_____
f. Cash paid to employees and suppliers?	_____	_____	_____
g. Grants paid?	_____	_____	_____
h. Interest paid?	_____	_____	_____
i. Other operating cash payments (if any)? [SFAS 95, par. 27 (AC C25.125)]	_____	_____	_____
6. If the direct method is used, is a separate reconciling schedule provided to reconcile Excess of Revenue and Support over Expenses to Net Cash Used (Provided) by Operating Activities? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
7. Are investing and financing activities that affect recognized assets or liabilities, but that do not result in cash receipts or cash payments, disclosed? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____

¹² See footnotes 1 and 2 in FSP section 9100.

¹³ See footnotes 1 and 2 in FSP section 9100.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
C. Statement of Functional Expenses			
For VHW:			
1. Is a statement of functional expenses presented as a basic financial statement for each period for which a statement of support, revenue, and expenses is presented? [AAG-VHW, par. 6.17]	_____	_____	_____
2. Does the statement of functional expenses contain sufficient information to enable a reader to obtain a general understanding of the nature of the costs of carrying out the organization's activities? [AAG-VHW, par. 6.17]	_____	_____	_____
V. Tax Status			
1. If the organization's tax exempt status is in question by the IRS, is the potential impact disclosed? [SFAS 5, pars. 1 and 39 (AC C59.101 and .145)]	_____	_____	_____

Yes No N/A

Exhibit A—Postretirement Health Care Benefits

The effective date of SFAS 106 is for fiscal years beginning after December 15, 1992, except for plans outside the United States, and for defined benefit plans of employers that are (a) nonpublic entities and (b) sponsor defined benefit postretirement plan(s) with no more than 500 plan participants in the aggregate, in which case the effective date is for fiscal years beginning after December 15, 1994. Earlier application is encouraged. If the not-for-profit organization has 500 or fewer plan participants and does not elect early application, the following disclosures remain in effect:

A. Postretirement Health Care and Life Insurance Benefits

1. Do disclosures include:

- a. Discription of benefits and employee groups covered? _____
- b. Description of accounting and funding policies? _____
- c. Cost of benefits recognized during the period unless the provisions of Step 2 apply? _____
- d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented? _____
[SFAS 81, par. 6 (AC P50.102)] _____

- 2. If the cost of any postretirement health care or life insurance benefit cannot readily be separated from the cost of providing such benefits for active employees or otherwise be reasonably approximated, is the total cost of providing those benefits to both active employees and retirees as well as the number of active employees and the number of retirees covered by the plan disclosed? _____
[SFAS 81, par. 7 (AC P50.103)] _____

Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

SAS = AICPA Statement on Auditing Standards

AU = Reference to section number in AICPA *Professional Standards* (Vol. 1)

AAG-NPR = AICPA Audit and Accounting Guide, *Audits of Certain Not-for-Profit Organizations* (with conforming changes as of May 1, 1994)

SOP = AICPA Statement of Position

AAG-VHW = AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations* (with conforming changes as of May 1, 1994)

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the auditor's report include the appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
b. Date (or dual dates) of the report? [SAS 1, sec. 530.05 (AU 530.05); SAS 58, pars. 8 and 46 (AU 508.08 and .46)]	_____	_____	_____
c. Title that includes the word independent? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
2. If the auditor is not independent, is a compilation report the highest level of service performed? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
3. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period?	_____	_____	_____
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
4. Does the report include appropriate language with respect to the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 47—48 (AU 508.47—.48)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14—17 (AU 504.14—.17)]	_____	_____	_____
5. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if:			
a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the report? [SAS 58, pars. 16—33 (AU 508.16—.33)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Note: Consult the Topical Index to the AICPA Professional Standards under "Uncertainties" for additional references to specific types of uncertainties.			
b. There is substantial doubt about the organization's ability to continue as a going concern for a reasonable period of time and is that conclusion expressed through the use of the phrase "substantial doubt about the organization's ability to continue as a going concern"? [SAS 64, par. 1 (AU 341.12)]	_____	_____	_____
c. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
d. In an updated report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed? [SAS 58, pars. 77, 78 and 81—83 (AU 508.77—.78 and .81—.83)]	_____	_____	_____
e. The prior period financial statements are audited by a predecessor auditor whose report is not presented? [SAS 58, par. 83, as amended by SAS 64, par. 2 (AU 508.83)]	_____	_____	_____
f. The auditor's opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]	_____	_____	_____
g. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation? [SAS 58, pars. 14—15 (AU 508.14—.15)]	_____	_____	_____
h. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
i. The auditor decides to emphasize a matter in the report? [SAS 58, par. 37 (AU 508.37); Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
6. Is a qualified opinion or disclaimer of opinion expressed if:			
a. Scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances? [SAS 58, pars. 40—45 (AU 508.40—.45); SAS 31, par. 22 (AU 326.23)]	_____	_____	_____
b. The organization has inadequate internal control structure policies and procedures over contributions and there is a significant risk that such revenue may be materially underrecorded? [AAG-VHW, par. 4.15; AAG-NPR, pars. 8.06—.07]	_____	_____	_____
Note: Consult the Topical Index to the AICPA Professional Standards under "Scope of Audit-Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.			
7. Is a qualified opinion or adverse opinion expressed if a lack of conformity with GAAP (including inadequate disclosure) is present? [SAS 58, pars. 49—66 (AU 508.49—.66); SAS 32, par. 3 (AU 431.03)]	_____	_____	_____
Note: Consult the Topical Index to the AICPA Professional Standards under "Departures from Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.			
8. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the reporting language appropriately modified? [SAS 58, pars. 39, 68 and 71 (AU 508.39, .68 and .71)]	_____	_____	_____
9. If information accompanies the basic financial statements in an auditor-submitted document, does the report on the accompanying information:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. State that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
b. Specifically identify the accompanying information?	_____	_____	_____
c. State that the accompanying information is presented for purposes of additional analysis and is not part of the basic financial statements?	_____	_____	_____
d. State whether the accompanying information is subject to the auditing procedures applied in audit of the basic financial statements and the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____
10. Is the reporting form and content of SAS 60, paragraphs 9—19, followed when communicating internal control structure related matters noted in an audit? ¹ [SAS 60, pars. 9—19 (AU 325.09—.19)]	_____	_____	_____
11. If the auditor is requested to audit Internal Revenue Form 990, "Return of Organizations Exempt From Income Tax," is the appropriate report prepared? [Interpretation 2 of SAS 62, sec. 623 (AU 9623.47—.54)]	_____	_____	_____
12. Is the reporting form and content of SAS 72 followed for comfort letters submitted to underwriters and other requesting parties on tax-exempt bond offerings? [SAS 72 (AU 634)]	_____	_____	_____

¹ Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of trustees or its audit committee. [SAS 60]

Auditors' Reports on Audits Performed Under Government Auditing Standards and OMB Circular A-133 Checklist¹

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 This checklist has two parts: Part I is for reports on audits performed under *Government Auditing Standards* ("Yellow Book"). Part II contains the additional requirements for reports on audits performed in accordance with OMB Circular A-133. For audits performed under Circular A-133, both Parts I and II of this checklist must be completed.

.03 Explanation of References:

A-133 =	Office of Management and Budget (OMB) Circular A-133
GAS =	<i>Government Auditing Standards</i> ("Yellow Book," issued by GAO, 1988 Revision)
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
SOP 92-9 =	AICPA Statement of Position, <i>Audits of Not-for-Profit Organizations Receiving Federal Awards</i>

.04 Checklist Questionnaire

Yes No N/A

Part I—Reports on Audits Performed in Accordance with *Government Auditing Standards* (the "Yellow Book")

1. In an audit performed in accordance with the Yellow Book, are the following reports issued:
 - a. A report on the organization's basic financial statements?²
 - b. A report on internal control structure?

¹ On March 8, 1990, the Office of Management and Budget issued Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Organizations*, to implement a "single audit" requirement for not-for-profit institutions. Circular A-133 requires that the auditor perform the audit in accordance with *Government Auditing Standards* (the "Yellow Book") issued by the Comptroller General of the United States.

SAS No. 68, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*, provides guidance on planning, performing, and reporting on the compliance aspects of audits in accordance with GAAS, GAO Standards, Circular A-133, and Circular A-128, which applies to state and local governmental entities.

On December 28, 1992, the AICPA issued SOP 92-9, *Audits of Not-for-Profit Organizations Receiving Federal Awards*, to provide guidance on the auditor's responsibilities when conducting an audit in accordance with Circular A-133. It incorporates the guidance in SAS No. 68, SOP 92-7, OMB's October 1991 *Compliance Supplement for Audits of Institutions of Higher Learning and Other Nonprofit Institutions*, and the President's Council on Integrity and Efficiency Standards Subcommittee's Position Statement No. 6 (A-133 Questions and Answers).

On July 26, 1993, the United States General Accounting Office issued the exposure draft of proposed changes to *Government Auditing Standards* ("Yellow Book"), which, when finalized, will supersede the 1988 revision and become effective for audits of periods ending on or after December 31, 1994.

² See the checklist for auditor's reports on the basic financial statements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. A report on compliance with laws and regulations that may have a direct and material effect on the basic financial statements? [SOP 92-9, par. 7.2]	_____	_____	_____
2. Does each auditor's report listed in Step 1. above contain a statement that the audit is conducted in accordance with generally accepted auditing standards and the Yellow Book? [GAS, Ch. 5, par. 3; SOP 92-9, par. 7.4]	_____	_____	_____
Report on Internal Control Structure ³			
3. Does the report on internal control structure (included in either the auditor's report on the financial statements or in a separate report) include, at a minimum:			
a. A statement that the auditor obtained an understanding of the internal control structure and assessed control risk?	_____	_____	_____
b. The significant internal controls established to ensure compliance with laws and regulations that have a material impact on the financial statements and results of the financial statement audit?	_____	_____	_____
c. Any reportable conditions, including separate identification of material weaknesses, identified as a result of the auditor's work in understanding and assessing the control risk?	_____	_____	_____
d. A statement that the report is intended for the information of the audit committee, management, and specific legislative or regulatory bodies, but that this restriction is not intended to limit the distribution of the report, if a matter of public record? [GAS, Ch. 5, pars. 17 and 18; SAS 68, pars. 33 and 40 (AU 801.33 and .40); SOP 92-9, Appendix D, Exhibit D-3]	_____	_____	_____
4. If the auditor notes reportable conditions in the financial statement audit, does the auditor's report on the internal control structure also contain:			
a. The definition of reportable conditions?	_____	_____	_____
b. A description of the reportable conditions noted?	_____	_____	_____
c. The definition of material weakness?	_____	_____	_____
d. If applicable, a statement that other matters involving the internal control structure and its operation were communicated to management in a separate letter? [SAS 68, par. 40 (AU 801.40)]	_____	_____	_____
5. If material weaknesses were noted, are the condition, cause, criteria, and effect of those material weaknesses included in the report? [GAS, Chap. 5, par. 9, fn. 7]	_____	_____	_____
6. If deficiencies in the internal control structure were not considered reportable conditions (referred to as "nonreportable conditions"), have those matters been communicated to the organization in writing (or orally, with working paper documentation)? [SAS 68, pars. 33 and 39 (AU 801.33 and .39); GAS Chap. 5, par. 25]	_____	_____	_____
7. If a separate written communication describing nonreportable conditions is issued, does the auditor's report on the internal control structure refer to that separate communication? [SAS 68, pars. 38 and 39 (AU 801.38—.39); SOP 92-9, par. 7.12]	_____	_____	_____
8. If no reportable conditions are noted during the audit, is a report issued as illustrated in SAS 68, paragraph 42, to satisfy the requirements of GAS, and does the report disclose that no weaknesses were identified? [SAS 68, par. 42 (AU 801.42); SOP 92-9, par. 7.11]	_____	_____	_____

³ Under the Yellow Book, a report on the internal control structure is required in *all* audits, even if no reportable conditions were noted. Also, the matters contained in this report are beyond those required to be communicated under SAS 60 (AU 325) in a GAAS audit. [SAS 68, par. 33 (AU 801.33)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Report on Compliance With Laws and Regulations			
9. Does the report on compliance with laws and regulations (included in either the report on the financial statements or a separate report) conform to the standard report illustrated in SAS 68, paragraph 25 (AU 801.25) and in Exhibits D-4 to D-7 in Appendix D of SOP 92-9?	_____	_____	_____
10. Does the report on compliance with laws and regulations contain:			
a. A statement of positive assurance on those items that were tested for compliance and negative assurance on those items not tested?	_____	_____	_____
b. All material instances of noncompliance?	_____	_____	_____
c. All instances or indications of illegal acts that could result in criminal prosecution?	_____	_____	_____
11. In rare circumstances in which the auditor decides not to test compliance with laws and regulations, does the report contain a statement that compliance with laws and regulations was not tested? [SAS 68, par. 26 (AU 801.26); GAS, Chap. 5, par. 6]	_____	_____	_____
12. If the auditing procedures disclosed material instances of noncompliance, is the report on compliance appropriately modified?	_____	_____	_____
a. Does that modified report include:			
(1) The definition and identification of material instances of noncompliance noted?	_____	_____	_____
(2) A statement that the noncompliance noted was considered in forming an opinion on whether the organization's financial statements are presented fairly, in conformity with GAAP?	_____	_____	_____
b. Was a statement considered about:			
(1) Whether the misstatements have been corrected in the financial statements?	_____	_____	_____
(2) The effect of such misstatements on the auditor's report on the basic financial statements? [SAS 68, pars. 27 and 28 (AU 801.27—.28)]	_____	_____	_____
13. Are immaterial instances of noncompliance reported in a separate communication to the organization? ⁴ [SAS 68, pars. 29 and 95 (AU 801.29 and .95); GAS, Chap. 5, par. 8]	_____	_____	_____
14. If the auditor issued a separate letter describing immaterial instances of noncompliance, does the compliance report include a reference to that letter? [SAS 68, pars. 29 and 30 (AU 801.29 and .30); SOP 92-9, par. 7.16]	_____	_____	_____
15. If the auditor becomes aware of illegal acts or of possible illegal acts, are they communicated to management or the appropriate oversight body? [SAS 68, pars. 31 and 32 (AU 801.31—.32); GAS, Chap. 5, par. 10]	_____	_____	_____
16. If the auditor becomes aware of illegal acts and remains uncertain about whether they will materially affect the financial statements, is the report on the financial statements qualified or a disclaimer of opinion issued? [SOP 92-9, par. 7.18]	_____	_____	_____
Other Matters			
17. If performance audits are required by contractual obligations, are findings presented in accordance with the Yellow Book? [GAS, Ch. 2, pars. 6—10]	_____	_____	_____
18. Does the auditor's report on the financial statements disclose the status of known but uncorrected significant or material findings and recommendations from prior audits that could have an effect on the current audit objective? [SAS 68, par. 20, fn. 10 (AU 801.20); GAS, Ch. 3, par. 41; SOP 92-9, par. 7.41]	_____	_____	_____

⁴ If there are no immaterial instances of noncompliance, the auditor may so note in the report. [SOP 92-9, par. 7.24]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
19. Did the auditor consider the impact on his or her report on the financial statements of the effects of noncompliance findings from other simultaneous audits that may result in claims for refunds? [SOP 92-9, par. 7.43; SFAS 5 (AC C59)]	_____	_____	_____
20. Do the reports on the schedule of federal awards, compliance, and internal control structure carry the same date as the report on the basic financial statements? [SOP 92-9, par. 7.27]	_____	_____	_____

Part II—Reports on Audits Performed Under OMB Circular A-133

1. If the organization is subject to the requirements of Circular A-133, are the following additional reports issued:			
a. A report on a supplementary schedule of the organization's federal awards? ⁵	_____	_____	_____
b. A report on the internal control policies and procedures used to administer federal awards?	_____	_____	_____
c. A report on compliance with specific laws and regulations that may have a direct and material effect on each major program?	_____	_____	_____
d. A report on compliance with certain laws and regulations applicable to nonmajor programs? ⁶	_____	_____	_____
e. A report on compliance with general requirements? ⁷ [SOP 92-9, par. 7.19]	_____	_____	_____
2. Does each auditor's report listed in Step 1. above contain a statement that the audit is conducted in accordance with generally accepted auditing standards; <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133? [SOP 92-9, Appendix D, Exhibits D-8 through D-18]	_____	_____	_____

Report on Internal Control Structure Used in Administering Federal Awards

3. Does the report on the internal control structure used in administering federal awards conform to the standard report illustrated in Exhibit D-8 in Appendix D of SOP 92-9?	_____	_____	_____
4. Does the report on internal control structure include:			
a. If applicable, a statement that the auditor has audited the financial statements and a reference to the auditor's report on the financial statements?	_____	_____	_____
b. A description of the scope of the auditor's work to obtain an understanding of the internal control structure, to assess control risk, and to test the internal control structure policies and procedures?	_____	_____	_____
c. A description of the organization's significant control policies and procedures established to provide reasonable assurance that it is managing its federal awards in compliance with applicable laws and regulations?	_____	_____	_____
d. Any reportable conditions noted, including the identification of material weaknesses? [SOP 92-9, par. 7.22]	_____	_____	_____
5. If the auditor determines that tests of controls are likely to be ineffective in preventing or detecting noncompliance, is that matter disclosed as a "reportable condition"? [SOP 92-9, par. 7.23]	_____	_____	_____

⁵ Under Circular A-133, a recipient or subrecipient of an award is required to prepare a schedule of federal awards. A sample schedule is presented in Appendix E of SOP 92-9. [Attachment to Circular A-133, par. 15(c)(1), SOP 92-9, pars. 4.7 and 7.20]

⁶ If the entity has no nonmajor programs, or if the auditor has not selected any nonmajor program transactions, this report is not required. [SOP 92-9, par. 7.26]

⁷ A report on compliance with general requirements is required regardless of whether there are any major programs. [SOP 92-9, par. 7.25]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. If the auditor limits his or her consideration of the internal control structure for any reason, are the circumstances disclosed in the report on the internal control structure? [SOP 92-9, par. 7.23]	_____	_____	_____
Report on Compliance With Specific Requirements Related to Major Programs			
7. For audits of major programs, does the report on compliance with specific requirements conform to the standard report illustrated in SAS 68, paragraph 81 (AU 801.81) and in Exhibits D-9 through D-14 in Appendix D of SOP 92-9?	_____	_____	_____
8. If the auditor is disclaiming an opinion due to a scope limitation:			
a. Are the reasons indicated, in a separate paragraph, as to why the audit did not comply with GAAS, the Yellow Book, or OMB Circular A-133?	_____	_____	_____
b. Is a statement included that the scope of the audit is not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. Does the report exclude identification of the procedures that were performed and exclude a paragraph describing the characteristics of an audit?	_____	_____	_____
d. Does the auditor disclose any reservations he or she has regarding compliance with applicable laws and regulations? [SAS 68, pars. 82 and 84 (AU 801.82 and .84)]	_____	_____	_____
9. If the auditing procedures disclose instances of noncompliance on major programs:			
a. Did the resulting modification to the auditor's report on compliance consider factors that include:			
(1) The number and types of instances of noncompliance?	_____	_____	_____
(2) Determinability of questioned costs?	_____	_____	_____
(3) Materiality of questioned costs?	_____	_____	_____
b. If, after considering those factors, the auditor concludes that the instances of noncompliance have a material effect on a federal program, is a qualified or adverse opinion issued?	_____	_____	_____
or			
c. If, after considering those factors, the auditor is unable to determine if the instance of noncompliance could have a material effect on the program, does the report state that noncompliance occurred but the effect on the programs presently cannot be determined?	_____	_____	_____
(1) Is the effect of such uncertainties considered and, if necessary, is the report on the basic financial statements modified? [SOP 92-9, par. 7.24]	_____	_____	_____
10. If the auditor is unable to examine appropriate evidence to support the comply/noncomply decision, is the report appropriately modified? [SOP 92-9, par. 7.24]	_____	_____	_____
Report on Compliance With General Requirements			
11. Does the report on compliance with general requirements conform to the standard report illustrated in SAS 68, paragraph 52 (AU 801.52) and in Exhibits D-15 through D-17 in Appendix D of SOP 92-9?	_____	_____	_____
Report on Compliance Related to Nonmajor Programs			
12. For nonmajor programs, does the report on compliance conform to the standard report illustrated in SAS 68, paragraph 90 (AU 801.90) and in Exhibit D-18 in Appendix D of SOP 92-9?	_____	_____	_____
General			
13. Does each auditor's report on compliance with laws and regulations include, for each federal award:			
a. An identification of total amounts questioned as a result of noncompliance?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Any corrective action recommended by the auditor? [SOP 92-9, pars. 7.30 and 7.32]	_____	_____	_____
14. Are any immaterial findings included either (1) in a schedule of findings and costs or (2) in a separate communication to management? [SOP 92-9, par. 7.30]	_____	_____	_____
15. If the audit is biennial, are both years within the period covered? [SOP 92-9, par. 2.47]	_____	_____	_____

Accountants' Reports on Compiled or Reviewed Financial Statements Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 SSARS No. 7, *Omnibus Statement on Standards for Accounting and Review Services—1992*, issued in November 1992, amended SSARS 1 in several different areas. It is effective for periods ending after December 15, 1993, and for reports issued after that date. Earlier application is encouraged. This checklist incorporates the provisions of SSARS No. 7

.03 Explanation of References:

SSARS = AICPA Statement on Standards for Accounting and Review Services

AR = Reference to section number in AICPA *Professional Standards* (vol. 2)

.04 This checklist is divided into two parts. Part I should be used by accountants engaged to compile financial statements and Part II should be used by accountants engaged to review financial statements.

.05 Checklist Questionnaire

Yes No N/A

Part I—For Compilation Engagements

1. Is the compilation report appropriately worded to state that:
 - a. A compilation is performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants? _____
 - b. A compilation is limited to presenting in the form of financial statements information that is the representation of management?
[See SSARS 3, par. 3 (AR 300.03) for reporting on financial statements included in a prescribed form, and the form calls for departure from GAAP] _____
 - c. The financial statements are not audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them?
[SSARS 1, par. 14 (AR 100.14)] _____
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement?
[SSARS 1, pars. 14 and 32 (AR 100.14 and .32)] _____
3. For compiled financial statements that contain departures ¹ from GAAP or, where applicable, an other comprehensive basis of accounting (OCBOA):
 - a. If the departure is the omission of substantially all required disclosures, does the accountant's report clearly indicate such omission?
[SSARS 1, pars. 19 and 21 (AR 100.19 and .21)] _____
 - b. If compiled financial statements that omit substantially all of the disclosures required by GAAP include disclosures about only a few matters, are such disclosures labeled "Selected Information—Substantially All Disclosures Required by GAAP (or, where applicable, OCBOA) Are Not Included"?
[SSARS 1, par. 19 (AR 100.19)] _____

¹ Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS 3 (AR 300) compilation report on financial statements included in a prescribed form.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. If compiled financial statements that omit substantially all required disclosures are prepared on a basis of accounting other than GAAP, and if such financial statements do not include disclosure of the basis of accounting used, does the accountant's report disclose the basis of accounting? ² [SSARS 1, par. 20 (AR 100.20)]	_____	_____	_____
d. If compiled financial statements contain a departure from GAAP or, where applicable, OCBOA, does the accountant modify his or her report to disclose the departure in a separate paragraph? [SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]	_____	_____	_____
(1) If the effects of the departure on the financial statements are determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
(2) If the effects of the departure on the financial statements are not determined, does the accountant state this in his or her report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
4. If the accountant is not independent with respect to the organization, does the last paragraph of the report state, "I am (We are) not independent with respect to XYZ organization"? [SSARS 1, pars. 22 and 38 (AR 100.22 and 100.38)]	_____	_____	_____
5. Is the report dated as of the date that substantially all compilation procedures have been completed? [SSARS 1, par. 15 (AR 100.15)]	_____	_____	_____
6. Does each page of the financial statements compiled by the accountant include a reference such as "See Accountant's Compilation Report"? [SSARS 1, par. 16 (AR 100.16)]	_____	_____	_____
7. If the accountant compiles both the basic financial statements and other data that is presented for supplementary analysis purposes, does the compilation report also include the other data indicating the degree of responsibility taken? [SSARS 1, par. 43 (AR 100.43)]	_____	_____	_____
8. If an audit or review engagement is changed to a compilation, does the report omit reference to: (a) the original engagement, (b) any auditing or review procedures that may have been performed, and (c) any scope limitation that results in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]	_____	_____	_____
9. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	_____	_____	_____
10. If compiled financial statements that omit substantially all of the disclosures required by GAAP are presented with the comparative financial statements that previously included all disclosures, do all the periods presented also omit such disclosures? [SSARS 2, par. 5 (AR 200.05)]	_____	_____	_____
a. If the prior-period financial statements do not omit the required disclosures and the accountant is requested to compile statements for the same period that do omit those disclosures, does the accountant's compilation report include an additional paragraph that indicates:			
(1) The nature of the previous service rendered (compilation, review or audit)?	_____	_____	_____
(2) The date of the previous report? [SSARS 2, pars. 29—30 (AR 200.29—.30)]	_____	_____	_____

² SAS 62, paragraphs 9 and 10 (AU Secs. 623.09—10), provides guidance on evaluating the adequacy of disclosure in financial statements prepared in conformity with OCBOA.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. A review is performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants? [SAS 1, par. 38 (AR 100.38)]	_____	_____	_____
b. All information included in the financial statements is the representation of the management of the organization?	_____	_____	_____
c. A review consists principally of inquiries of organization personnel and analytical procedures applied to financial data?	_____	_____	_____
d. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole and, accordingly, no such opinion is expressed?	_____	_____	_____
e. The accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with GAAP or, where applicable, with OCBOA, other than those modifications, if any, indicated in the report? [SSARS 1, par. 32 (AR 100.32)]	_____	_____	_____
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement? [SSARS 1, pars. 14 and 32 (AR 100.14 and .32)]	_____	_____	_____
3. For reviewed financial statements that contain departures from GAAP or, where applicable, OCBOA (including the omission of required disclosures), is the accountant's report modified to disclose the departure? [SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]	_____	_____	_____
a. If the effects of the departure are determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
b. If the effects of the departure are not determined, does the accountant state this in his or her modified report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
4. Is the report dated as of the completion of substantially all review procedures? [SSARS 1, par. 33 (AR 100.33)]	_____	_____	_____
5. Does each page of the financial statements include a reference such as "See Accountant's Review Report"? [SSARS 1, par. 34 (AR 100.34)]	_____	_____	_____
6. When accompanying information is presented with the financial statements, does the accountant clearly indicate his or her degree of responsibility with respect to such information as follows:			
a. If the basic financial statements are reviewed, is the degree of responsibility disclosed in the report or in a separate report on the other data that states:			
(1) The review is made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with GAAP or, where applicable, OCBOA?	_____	_____	_____
and either:			
(2) The other data accompanying the financial statements was subject to the inquiry and analytical procedures applied in the review of the basic financial statements?	_____	_____	_____
or			
(3) The other data accompanying the financial statements was not subject to the inquiry and analytical procedures applied in the review of the basic financial statements but have been compiled? [SSARS 1, par. 43 (AR 100.43)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Perform a compilation, review, or audit of the statements of the prior period and report on them accordingly? [SSARS 2, pars. 16—19 (AR 200.16—.19)]	<u> </u>	<u> </u>	<u> </u>

Illustrative Financial Statements

.01 The following illustrative auditor's reports and financial statements (exhibits 1 through 5) demonstrate the practical applications of the reporting practices discussed in the AICPA Audit and Accounting Guide, *Audits of Certain Not-for-Profit Organizations*, and the AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations* (the Guides). Specific types of not-for-profit organizations have been selected to illustrate a wide diversity of reporting practices; it is not intended that these illustrations represent either the only types of disclosure or the only statement formats that would be appropriate. Not-for-profit organizations are urged to develop financial statement formats that are appropriate for their individual circumstances while being consistent with the accounting and reporting practices discussed in the Guides. These illustrations are from the AICPA Integrated Practice System, Not-for-Profit Organizations Audit Manual.

Note: In June 1993, the FASB issued Statements of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 116 changes the accounting for contributions as presently set forth in SOP 78-10 and in the Audit of Voluntary Health and Welfare Organizations Guide. SFAS No. 117 establishes standards for not-for-profit organizations general purpose external financial statements. SFAS Nos. 116 and 117 are effective for financial statements issued for fiscal years beginning after December 15, 1994, except for organizations with less than \$5 million in total assets and less than \$1 million in annual expenses. For those organizations, the Statements are effective for fiscal years beginning after December 15, 1995. Earlier application is encouraged.

These Statements are not reflected in these illustrative financial statements as few organizations have adopted these pronouncements at this time. The 1995 edition of these illustrative financial statements will be revised to reflect these new pronouncements. Practitioners whose clients have adopted SFAS Nos. 116 and 117 early should determine the effect of these Statements when using these illustrative financial statements.

Independent Auditor's Report

[Addressee]

We have audited the accompanying balance sheet of Sample Not-for-Profit Organization as of December 31, 19X2, and the related statement(s) of activity [and cash flows] for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Not-for-Profit Organization as of December 31, 19X2, and the results of its operations [and its cash flows] for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

EXHIBIT 1—INDEPENDENT SCHOOL

EXHIBIT 1A—SAMPLE INDEPENDENT SCHOOL

.03

Balance Sheets

June 30, 19X2

	<i>Operating Funds</i>	<i>Plant Funds</i>	<i>Endowment Funds</i>	<i>Total All Funds</i>
Assets				
Cash	\$ 87,000	\$ 15,000	\$ 19,000	\$ 121,000
Accounts receivable, less allowance for doubtful receivables of \$3,000	34,000	—	—	34,000
Pledges receivable, less allowance for doubtful pledges of \$10,000	—	75,000	—	75,000
Inventories, at lower of cost (FIFO) or market	7,000	—	—	7,000
Investments (Note 2)	355,000	10,000	100,000	465,000
Land, buildings, equipment, and library books, at cost less accumulated depreciation of \$980,000 (Note 3)	—	2,282,000	—	2,282,000
Other assets	17,000	—	—	17,000
Total assets	\$500,000	\$2,382,000	\$119,000	\$3,001,000
Liabilities and Fund Balances				
Accounts payable and accrued expenses	13,000	—	—	13,000
Deferred amounts (Note 6)				
Unrestricted	86,000	—	—	86,000
Restricted	27,000	100,000	—	127,000
Long-term debt (Note 4)	—	131,000	—	131,000
Total liabilities	126,000	231,000	—	357,000
Fund balances				
Unrestricted				
Designated by the governing board for long-term investment	355,000	—	—	355,000
Undesignated	19,000	—	—	19,000
	374,000	—	—	374,000
Restricted—nonexpendable	—	—	\$119,000	119,000
Net investment in plant	—	2,151,000	—	2,151,000
Total fund balances	374,000	2,151,000	119,000	2,644,000
Total liabilities and fund balances	\$500,000	\$2,382,000	\$119,000	\$3,001,000

The accompanying notes are an integral part of these financial statements.

EXHIBIT 1B—SAMPLE INDEPENDENT SCHOOL

.04 Statement of Support and Revenues, Expenses, Capital Additions, and Changes in Fund Balances

Year Ended June 30, 19X2

	<i>Operating Funds</i>			<i>Plant Funds</i>	<i>Endowment Funds</i>	<i>Total All Funds</i>
	<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>			
Support and Revenues						
Tuition and fees	\$ 910,000	—	\$ 910,000	—	—	\$ 910,000
Contributions	104,000	\$80,500	184,500	—	—	184,500
Endowment and other investment income	23,000	1,500	24,500	—	—	24,500
Net loss on investment transactions	(8,000)	—	(8,000)	—	—	(8,000)
Auxiliary activities	25,000	—	25,000	—	—	25,000
Summer school and other programs	86,000	—	86,000	—	—	86,000
Other sources	26,000	—	26,000	—	—	26,000
Total support and revenues	<u>1,166,000</u>	<u>82,000</u>	<u>1,248,000</u>	<u>—</u>	<u>—</u>	<u>1,248,000</u>
Expenses						
Program services						
Instruction and student activities	798,000	43,000	841,000	\$ 69,000	—	910,000
Auxiliary activities	24,000	—	24,000	—	—	24,000
Summer school and other programs	91,000	—	91,000	7,000	—	98,000
Financial aid	—	37,000	37,000	3,000	—	40,000
Total program services	<u>913,000</u>	<u>80,000</u>	<u>993,000</u>	<u>79,000</u>	<u>—</u>	<u>1,072,000</u>
Supporting services						
General administration	147,000	2,000	149,000	13,000	—	162,000
Fund raising	12,000	—	12,000	1,000	—	13,000
Total supporting services	<u>159,000</u>	<u>2,000</u>	<u>161,000</u>	<u>14,000</u>	<u>—</u>	<u>175,000</u>
Total expenses	<u>1,072,000</u>	<u>82,000</u>	<u>1,154,000</u>	<u>93,000</u>	<u>—</u>	<u>1,247,000</u>
Excess (deficiency) of support and revenues over expenses before capital additions	<u>94,000</u>	<u>—</u>	<u>94,000</u>	<u>(93,000)</u>	<u>—</u>	<u>1,000</u>
Capital additions						
Contributions and bequests	—	—	—	80,000	\$ 30,000	110,000
Investment income	—	—	—	5,000	—	5,000
Net gain on investment transactions	—	—	—	1,000	2,000	3,000
Total capital additions	<u>—</u>	<u>—</u>	<u>—</u>	<u>86,000</u>	<u>32,000</u>	<u>118,000</u>
Excess (deficiency) of support and revenues over expenses after capital additions	<u>94,000</u>	<u>—</u>	<u>94,000</u>	<u>(7,000)</u>	<u>32,000</u>	<u>119,000</u>
Fund balances at beginning of year	387,000	—	387,000	2,047,000	91,000	2,525,000
Transfers						
Equipment acquisitions and principal debt service payments	(111,000)	—	(111,000)	111,000	—	—
Realized gains on endowment funds utilized	4,000	—	4,000	—	(4,000)	—
Fund balances at end of year	<u>\$ 374,000</u>	<u>—</u>	<u>\$ 374,000</u>	<u>\$2,151,000</u>	<u>\$119,000</u>	<u>\$2,644,000</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT 1C—SAMPLE INDEPENDENT SCHOOL

.05

Statement of Changes in Financial Position¹

Year Ended June 30, 19X2

	<u>Operating Funds</u>	<u>Plant Funds</u>	<u>Endowment Funds</u>	<u>Total All Funds</u>
Resources Provided				
Excess (deficiency) of support and revenues over expenses before capital additions	\$ 94,000	\$ (93,000)	—	\$ 1,000
Capital additions				
Contributions and bequests	—	80,000	\$ 30,000	110,000
Investment income	—	5,000	—	5,000
Net gain on investments	—	1,000	2,000	3,000
Excess (deficiency) of support and revenue over expenses after capital additions	94,000	(7,000)	32,000	119,000
Items not using (providing) resources				
Provision for depreciation	—	93,000	—	93,000
Net (gain) loss on investment transactions	8,000	(1,000)	(2,000)	5,000
Decrease in inventories	2,000	—	—	2,000
Increase in deferred amounts	3,000	75,000	—	78,000
Proceeds from sale of investments	160,000	2,000	47,000	209,000
Total resources provided	<u>267,000</u>	<u>162,000</u>	<u>77,000</u>	<u>506,000</u>
Resources Used				
Purchases of equipment	—	145,000	—	145,000
Reduction of long-term debt	—	52,000	—	52,000
Purchases of investments	210,000	6,000	136,000	352,000
Increase in other assets	1,000	—	—	1,000
Increase in accounts and pledges receivable	3,000	60,000	—	63,000
Decrease in accounts payable and accrued expenses	3,000	—	—	3,000
Total resources used	<u>217,000</u>	<u>263,000</u>	<u>136,000</u>	<u>616,000</u>
Transfers				
Equipment acquisitions and principal debt service payments	(111,000)	111,000	—	—
Realized gains on endowment funds utilized	4,000	—	(4,000)	—
Total transfers	<u>(107,000)</u>	<u>111,000</u>	<u>(4,000)</u>	<u>—</u>
Increase (decrease) in cash	<u>\$ (57,000)</u>	<u>\$ 10,000</u>	<u>\$ (63,000)</u>	<u>\$ (110,000)</u>

The accompanying notes are an integral part of these financial statements.

¹ See footnotes 1 and 2 in FSP section 9100.

EXHIBIT 1D—SAMPLE INDEPENDENT SCHOOL

.06

Notes to Financial Statements

Year Ended June 30, 19X2

Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Independent School ("School") have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the school, the accounts of the school are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the school are reported in three self-balancing fund groups as follows:

- Operating funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of school operations.
- Plant funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

Expendable Restricted Resources

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the school has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

Plant Assets and Depreciation

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Other Matters

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the expendable operating fund or, (a) if restricted by purpose, as deferred revenue of the operating fund until the terms of the restriction have been met and (b) if required to be added to endowment principal, as capital additions.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of

future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

Note 2—Investments

Investments are presented in the financial statements in the aggregate at the lower of cost (amortized, in the case of bonds) or fair market value.

	<u>Cost</u>	<u>Market</u>
Operating funds	\$355,000	\$365,000
Plant funds	10,000	11,000
Endowment funds	100,000	109,000
	<u>\$465,000</u>	<u>\$485,000</u>

Investments are composed of the following:

	<u>Cost</u>	<u>Market</u>
Corporate stocks and bonds	\$318,000	\$320,000
U.S. government obligations	141,000	159,000
Municipal bonds	6,000	6,000
	<u>\$465,000</u>	<u>\$485,000</u>

The following tabulation summarizes the relationship between carrying values and market values of investment assets.

	<u>Carrying Value</u>	<u>Market Value</u>	<u>Excess of Market Over Cost</u>
Balance at end of year	\$465,000	\$485,000	\$20,000
Balance at beginning of year	<u>\$327,000</u>	<u>\$335,000</u>	8,000
Increase in unrealized appreciation			12,000
Realized net loss for year			(5,000)
Total net gain for year			<u>\$ 7,000</u>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended June 30, 19X2.

Note 3—Plant Assets and Depreciation

A summary of plant assets follows:

Land	\$ 255,000
Buildings	2,552,000
Equipment	340,000
Library books	115,000
	<u>3,262,000</u>
Less accumulated depreciation	980,000
	<u>\$2,282,000</u>

Note 4—Long-Term Debt

A summary of long-term debt follows:

7 1/2% unsecured notes payable to bank due in quarterly installments of \$2,500	\$ 29,000
8 1/2% mortgage payable in semiannual installments of \$3,500 through 20Y6	102,000
	<u>\$131,000</u>

Aggregate maturities of long-term debt are summarized as follows:

19X3	\$ 17,000
19X4	17,000
19X5	16,000
19X6	7,000
19X7	7,000
19X8 and after	67,000
	<u>\$131,000</u>

Note 5—Pension Plans and Other Postretirement Benefit Plans

The School has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the last five years of employment. The School's funding policy is to contribute annually at a rate that is intended to remain a level percentage of compensation for the covered employees (presently 12%). Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The following table sets forth the plan's funded status and amounts recognized in the School's financial statements at June 30, 19X2:

	<u>June 30, 19X2</u>
Funded status of plan:	
Actuarial present value of benefit obligations:	
Accumulated benefit obligation, including vested benefits of \$250,000	\$ 276,000
Projected benefit obligation for service rendered to date	(347,000)
Assets available for benefits:	
Plan assets at fair value, primarily listed stocks and U.S. government securities	426,000
Plan assets in excess of projected benefit obligation	79,000
Unrecorded net gain from past experience different from that assumed and effects of changes in assumptions	(111,000)
Unrecognized net obligation at January 1, 19X1 being recognized over 15 years	40,000
Prepaid pension cost included in other assets	<u>\$ 8,000</u>

Net pension expense included the following components:

	<u>19X2</u>
Service cost—benefits earned during the year	\$ 26,000
Interest cost on projected benefit obligation	39,000
Actual return on plan assets	(45,000)
Amortization of unrecognized net obligation	10,000
Net periodic pension expense	<u>\$ 30,000</u>

The weighted-average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation were 6% and 5%, respectively. The expected long-term rate of return on assets was 8%.

The School also sponsors a defined contribution postretirement health care plan covering substantially all of its employees. The School's contributions and cost are determined annually as 2% of each covered employee's salary and totalled \$31,000 in 19X2.

Note 6—Changes in Deferred Restricted Amounts

	<i>Operating Funds</i>	<i>Plant Fund</i>
Balances at beginning of year	\$ 24,000	\$ 25,000
Additions		
Contributions and bequests	79,000	158,000
Investment income	6,000	1,000
Net gain on investment transactions	—	2,000
	<u>109,000</u>	<u>186,000</u>
Deductions—funds expended during the year	<u>82,000</u>	<u>86,000</u>
Balances at end of year	<u>\$ 27,000</u>	<u>\$100,000</u>

Note 7—Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support and revenue, expenses, capital additions, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 8—Commitments

The school has entered into various agreements aggregating approximately \$80,000 for the purchase of equipment to be received subsequent to June 30, 19X2.

Note 9—Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop the School's programs, principally in instruction and student activities. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Note 10—Allocation of Joint Costs

In 19X2, the School incurred joint costs of \$33,000 for informational materials and activities that included fund-raising appeals. Those costs were allocated as follows:

	<u>19X2</u>
Instruction and student activities	\$26,000
Fund raising	<u>7,000</u>
	<u>\$33,000</u>

Note 11—Income Taxes

The School is a tax-exempt organization under the Internal Revenue Code and similar provisions of the State Code. Therefore, no provision for income taxes has been made.

EXHIBIT 2—COUNTRY CLUB

EXHIBIT 2A—SAMPLE COUNTRY CLUB

.07

Balance Sheets

December 31, 19X2 and 19X1

Assets	<u>19X2</u>	<u>19X1</u>
Current Assets		
Cash	\$ 68,546	\$ 4,753
Accounts receivable, less allowance for doubtful accounts; 19X2 — \$3,085, 19X1 — \$3,085 (Note 2)	103,676	83,631
Inventories (Note 2)	29,962	32,487
Prepaid Expenses	21,959	35,111
Total current assets	<u>224,143</u>	<u>155,982</u>
Property and Equipment, At Cost (Note 2)		
Land	16,000	16,000
Land improvements	704,589	661,368
Buildings	795,501	773,228
Clubhouse, golf course and pro shop equipment	767,101	641,028
Construction in progress	5,000	—
	<u>2,288,191</u>	<u>2,091,624</u>
Less accumulated depreciation	<u>1,460,084</u>	<u>1,362,350</u>
	<u>828,107</u>	<u>729,274</u>
Total Assets	<u><u>\$1,052,250</u></u>	<u><u>\$ 885,256</u></u>
Liabilities and Members' Equity		
Current Liabilities		
Note payable (Note 2)	123,016	111,800
Current maturities of long-term debt (Note 2)	24,033	—
Accounts payable	58,672	56,953
Accrued expenses	44,025	40,503
Deferred revenue—sewer project assessments	62,980	—
Total current liabilities	<u>312,726</u>	<u>209,256</u>
Long-Term Debt, net of current maturities (note 2)	<u>41,403</u>	<u>—</u>
Members' Equity		
Proprietary certificates, \$333.34 par value; authorized 1,000 certificates; issued and outstanding 712 certificates	237,338	237,338
Deposits collected under certificate transfer plan	5,500	4,000
Additional paid-in capital	54,287	54,287
Cumulative excess of revenue over expenses	400,996	380,375
Total Members' equity	<u>698,121</u>	<u>676,000</u>
Total liabilities and Members' equity	<u><u>\$1,052,250</u></u>	<u><u>885,256</u></u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT 2B—SAMPLE COUNTRY CLUB

.08 **Statement of Revenues, Expenses, and Changes in Cumulative Excess of Revenues Over Expenses**

Years Ended December 31, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
Revenues		
Dues and locker fees	\$ 589,980	\$ 573,758
Restaurant and bar sales	514,949	525,651
Cart rental, storage fees and other golf income	128,715	154,048
Golf guest fees	38,967	40,320
Tennis and swimming fees	2,654	2,368
Initiation fees	21,750	9,000
Finance charges	2,293	2,868
Other	9,789	8,638
Total revenues	<u>1,309,097</u>	<u>1,316,651</u>
Expenses		
Golf course	339,484	299,211
Clubhouse	23,649	23,963
Restaurant and bar	584,164	589,200
Tennis and swimming	31,880	31,910
Pro shop	129,861	117,789
General and administrative	269,078	296,536
Total expenses	<u>1,378,116</u>	<u>1,358,609</u>
Excess (deficiency) of revenues over expenses before capital additions and gain (loss) on sale of equipment	<u>(69,019)</u>	<u>(41,958)</u>
Capital additions		
Assessments for capital improvements	49,010	45,917
Assessments for sewer project	43,221	—
Gain (loss) on sale of equipment	(2,591)	189
Excess of revenues over expenses after capital additions and gain (loss) on sale of equipment	20,621	4,148
Cumulative excess of revenues over expenses, beginning of year	380,375	376,227
Cumulative excess of revenues over expenses, end of year	<u><u>\$ 400,996</u></u>	<u><u>\$ 380,375</u></u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT 2C—SAMPLE COUNTRY CLUB

.09

Statements of Cash Flows

Year Ended December 31, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
Cash flows from operating activities		
Excess (deficiency) of revenues over expenses before capital additions and gain (loss) on sale of equipment	\$ (69,019)	\$ (41,958)
Item not requiring (providing) cash		
Depreciation	118,463	105,352
Changes in:		
Accounts receivable	(20,045)	(26,756)
Inventories	2,525	(1,117)
Prepaid expenses	13,152	(17,265)
Accounts payable and accrued expenses	5,241	19,769
Deferred revenue	62,980	—
Net cash provided by operating activities	<u>113,297</u>	<u>38,025</u>
Cash flows from investing activities		
Purchase of property and equipment	(221,587)	(126,395)
Proceeds from sale of property and equipment	1,700	938
Net cash used in investing activities	<u>(219,887)</u>	<u>(125,457)</u>
Cash flows from financing activities		
Proceeds from assessments for capital improvements	49,010	45,917
Proceeds from sewer project assessments	43,221	—
Principal payments on borrowings	(121,364)	(83,922)
Proceeds from issuance of debt	198,016	111,800
Proceeds from proprietary certificate purchase deposits	6,750	(2,000)
Retirement of proprietary certificates	(5,250)	—
Net cash provided by financing activities	<u>170,383</u>	<u>71,795</u>
Increase (decrease) in cash	63,793	(15,637)
Cash, beginning of year	4,753	20,390
Cash, end of year	<u>\$ 68,546</u>	<u>\$ 4,753</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT 2D—SAMPLE COUNTRY CLUB

.10

Notes to Financial Statements

December 31, 19X2 and 19X1

Note 1—Organization and Summary of Significant Accounting Policies

Nature of Business

Sample Country Club ("Club") is a nonprofit social club engaged in the operation of a golf course, clubhouse and restaurant facilities at Edlin, New Jersey. The Club extends unsecured credit to members.

Inventory Pricing

All inventories are stated at the lower of cost, determined using the FIFO (first-in, first-out) method, or market.

Property and Equipment

Property and equipment are depreciated over the estimated useful life of each asset. Annual depreciation is computed using the straight-line method.

Membership Dues and Initiation Fees

Membership dues are recognized as revenue in the applicable membership period. Initiation fees are recorded as revenue in the period when the fees are due.

Capital Improvement Assessments

Assessments for capital improvements are restricted for that purpose and are recorded as capital additions.

Sewer Project Assessments

Assessments for the sewer project are restricted for that purpose and are recorded as capital additions.

Income Taxes

The Club is exempt from income tax under the Internal Revenue Code and similar provisions of the State Code. Therefore, no provision for income taxes has been made.

Concentration of Credit Risk

Financial instruments that potentially subject the Club to concentrations of credit risk consist principally of cash and accounts receivable. The Club places its cash with creditworthy, high-quality financial institutions. Accounts receivable are with members located within the state. As of December 31, 19X2 and 19X1, the Club's receivables from members were \$97,450 and \$79,500, respectively.

Note 2—Note Payable and Long-Term Debt

	<u>19X2</u>	<u>19X1</u>
Note Payable:		
Bank line of credit; \$160,000 maximum borrowings; due March 20, 19X3; interest payable monthly at a rate of bank base plus 1%; secured by inventories, equipment and accounts receivable	<u>\$ 123,016</u>	<u>\$ 111,800</u>
Long-Term Debt:		
Note payable to bank; payable \$2,322 per month including interest at bank base plus 1%; secured by inventories, equipment and accounts receivable	<u>\$ 65,436</u>	<u>\$ 0</u>
Less current maturities	<u>24,033</u>	<u>—</u>
	<u>\$ 41,403</u>	<u>\$ 0</u>

Aggregate annual maturities of long-term debt at December 31, 19X2, are:

19X3	\$24,033
19X4	25,771
19X5	15,632
	<u>\$65,436</u>

Interest expense for the years ended December 31, 19X2 and 19X1, was \$8,385 and \$5,199, respectively.

Note 3—Operating Lease

The Club has entered into an operating lease for certain equipment which expires in 19X3, with yearly renewal options. Future minimum lease payments at December 31, 19X2, were as follows:

19X3	<u>\$ 4,140</u>
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Note 4—Additional Cash Flow Information

	<u>19X2</u>	<u>19X1</u>
Additional Cash Payment Information		
Interest paid	<u>\$ 8,562</u>	<u>\$ 5,231</u>

Note 5—Commitments

During 19X2, the Club committed to a wastewater collection and pumping facilities project. The total contract for the project was \$129,781. As of December 31, 19X2, the project was approximately 34% complete. The project is being funded by a special sewer assessment of \$50 per member per month for seven months beginning August 19X2 and an adjusted amount for the eighth month to complete the project.

EXHIBIT 3—COMMUNITY SERVICES CENTER

EXHIBIT 3A—SAMPLE COMMUNITY SERVICES CENTER

.11

Balance Sheets

June 30, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
Assets		
Current assets		
Cash	\$ 3,904	\$ 27,223
Accounts receivable (Notes 2 and 3)	150,149	136,669
Pledges receivable	396	12,179
Prepaid expenses	16,060	12,358
Total current assets	<u>170,509</u>	<u>188,429</u>
Property and Equipment (Note 2, 3, and 4)		
Equipment and furniture	139,737	103,696
Leasehold improvements	1,049,857	1,014,368
	<u>1,189,594</u>	<u>1,118,064</u>
Less accumulated depreciation	202,548	140,921
	<u>987,046</u>	<u>977,143</u>
Total Assets	<u><u>\$1,157,555</u></u>	<u><u>\$1,165,572</u></u>
Liabilities and Fund Balances		
Current liabilities		
Notes payable (Note 2)	61,450	42,020
Current maturities of long-term debt (Note 3)	83,556	12,331
Accounts payable	26,449	35,110
Accrued expenses	76,959	64,624
Total current liabilities	<u>248,414</u>	<u>154,085</u>
Long-term debt (Note 3)	<u>53,906</u>	<u>76,855</u>
Fund balances		
Restricted for capital improvements (Note 6)	—	6,285
Unrestricted	855,235	928,347
Total fund balances	<u>855,235</u>	<u>934,632</u>
Total liabilities and fund balances	<u><u>\$1,157,555</u></u>	<u><u>\$1,165,572</u></u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT 3B—SAMPLE COMMUNITY SERVICES CENTER

.12

Statement of Revenues, Expenses, and Changes in Fund Balances

Years Ended June 30, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
Revenues		
Contract services	\$1,035,346	\$ 907,065
County marriage and dissolution fees	28,360	23,149
Third party fees	23,599	46,284
Public support	143,095	156,424
In-kind contributions	16,365	10,267
Federal grants	125,307	272,958
Capital projects contributions and grants	—	251,854
Miscellaneous	<u>14,568</u>	<u>6,440</u>
Total revenues	1,386,640	1,674,441
Less unsupported client services	<u>10,417</u>	<u>14,644</u>
Net revenues	<u>1,376,223</u>	<u>1,659,797</u>
Expenses		
Personnel	1,095,681	888,775
Staff development	5,299	1,600
Professional services	23,041	6,680
Property services	145,732	107,338
Communications	14,364	14,103
Supplies	76,693	56,491
Travel	8,601	15,189
Direct client aid	25,359	12,027
Furnishings and small equipment	4,294	3,821
Fund raising	678	8,325
Interest	18,274	14,633
Bad debts	30,039	14,944
Loss on sale or disposition of property and equipment	—	10,324
Miscellaneous	<u>7,565</u>	<u>14,150</u>
Total expenses	<u>1,455,620</u>	<u>1,168,400</u>
Excess of revenues over (under) expenses	(79,397)	491,397
Fund balance, beginning of year	<u>934,632</u>	<u>443,235</u>
Fund balance, end of year	<u><u>\$ 855,235</u></u>	<u><u>\$ 934,632</u></u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT 3C—SAMPLE COMMUNITY SERVICES CENTER

.13

Statements of Cash Flows

Years Ended June 30, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
Cash flows from operating activities		
Excess of revenues over (under) expenses	\$ (79,397)	\$ 491,397
Items not requiring (providing) cash		
Depreciation and amortization	61,627	39,294
Loss on sale or disposition of property and equipment	—	10,324
Changes in:		
Accounts receivable	(13,480)	(67,067)
Pledges receivable	11,783	106,452
Prepaid expenses	(3,702)	(6,346)
Accounts payable	(8,661)	(25,607)
Accrued expenses	12,335	21,513
Deferred revenue - pledges	—	(77,627)
Deferred revenue - STEP project	—	(134,871)
Net cash provided by (used in) operating activities	<u>(19,495)</u>	<u>357,462</u>
Cash flows from investing activities		
Purchase of property and equipment	(50,162)	(512,813)
Proceeds from sale of property and equipment	—	325
Net cash used in investing activities	<u>(50,162)</u>	<u>(512,488)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	32,980	—
Payments made on long-term debt	(23,092)	(12,291)
Net borrowing under line of credit agreements	<u>36,450</u>	<u>30,020</u>
Net cash provided by financing activities	<u>46,338</u>	<u>17,729</u>
Increase (decrease) in cash	(23,319)	(137,297)
Cash, beginning of year	<u>27,223</u>	<u>164,520</u>
Cash, end of year	<u>\$ 3,904</u>	<u>\$ 27,223</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT 3D—SAMPLE COMMUNITY SERVICES CENTER

.14

Notes to Financial Statements

June 30, 19X2 and 19X1

Note 1—Organization and Summary of Significant Accounting Policies

Nature of Business

Sample Community Services Center ("CSC") provides services to survivors of domestic violence and sexual assault; chemically dependent and codependent women; and at-risk pregnant and parenting teens. These services include assessment, counseling, treatment and rehabilitation through both residential and non-residential services. Community services are provided through the promotion of public awareness and understanding and the prevention of these problems.

Accounts Receivable

CSC receivables consist primarily of state and federal contract receivables. Unsecured credit is extended to clients.

Property and Equipment

Property and equipment are stated at cost and depreciated or amortized over the estimated useful life of each asset. Depreciation and amortization are computed using the straight-line method.

Tax Status

CSC is a not-for-profit organization exempt from income taxes under the Internal Revenue Code and similar provisions of the State Code. Therefore, no provision for income taxes has been made.

Unsupported Client Services

Unsupported client services are those client fees for services not covered by contract revenue and which the client is financially unable to pay for.

Reclassifications

Certain reclassifications have been made to the 19X1 amounts to conform to the 19X2 financial statement presentation. These reclassifications had no effect on previously reported 19X1 results of operations.

Note 2—Notes Payable

Short-term notes payable consist of:

	<u>19X2</u>	<u>19X1</u>
Bank (A)	\$61,450	\$ 25,000
Bank (B)	—	17,020
	<u>\$61,450</u>	<u>\$ 42,020</u>

- (A) Line of credit due November 7, 19X2 in the maximum amount of \$132,000, interest at the prime rate plus one percent per annum payable monthly; secured by accounts receivable, equipment, fixtures, inventory and leaseholds of CSC and the assets of Community Help Center, Inc. (CHCI), a related party.
- (B) Revolving line of credit, due September 26, 19X1; maximum borrowings of \$45,000; interest payable monthly at 11.25%; secured by equipment, furniture and accounts receivable; guaranteed by CHCI.

Note 3—Long-Term Debt

	<u>19X2</u>	<u>19X1</u>
Note payable, bank (A)	\$ 48,507	\$ —
Note payable, bank (B)	37,128	39,781
Note payable, bank (C)	37,585	49,405
Capital lease obligation (Note 4)	14,242	—
	<u>137,462</u>	<u>89,186</u>
Less current maturities	83,556	12,331
	<u>\$ 53,906</u>	<u>\$ 76,855</u>

Aggregate annual maturities of long-term debt at June 30, 19X2 are:

19X3	\$ 83,556
19X4	8,736
19X5	45,170
	<u>\$137,462</u>

- (A) Due September 26, 19X4; payable \$510 monthly, including interest at 1% over prime rate; secured by equipment, fixtures, inventory, accounts receivable and assets of CHCI.
- (B) Due June 5, 19X3; payable \$500 monthly, including interest at 1% over prime rate; secured by assets of CHCI.
- (C) Due June 5, 19X3; payable \$1,305 monthly, including interest at 1% over prime rate; secured by equipment, furniture and accounts receivable of CSC; guaranteed by CHCI.

Note 4—Leases

Operating

CSC leases its building facility from CHCI under an operating-type lease. The lease expires in October, 20Y5. CSC as lessee is responsible for maintenance. Rental payments are due monthly. Total rent expense for the years 19X2 and 19X1 was \$29,500 and \$17,000, respectively. The monthly rental amount may be adjusted annually.

Capital

The capital lease shown in long-term debt (Note 3) is a lease covering equipment for three years expiring in 19X4. Property and equipment include \$22,863 under this capital lease.

Future minimum lease payments as of June 30, 19X2, were:

19X3	\$ 9,014
19X4	7,512
	<u>16,526</u>
Future minimum lease payments	16,526
Less amount representing interest	2,284
	<u>14,242</u>
Present value of future minimum lease payments	14,242
Less current maturities	7,252
	<u>\$ 6,990</u>

Note 5—Related-Party Transactions

During the year ended June 30, 19X1, CSC received a donation of \$23,000 from CHCI.

CSC also received payment of a capital fund drive pledge of \$55,000 from CHCI during 19X1.

CSC is a guarantor of a note payable for CHCI. The outstanding balance of this note at June 30, 19X2 and 19X1 was \$42,816 and \$43,200, respectively.

Note 6—Restricted for Capital Improvements

Restricted for capital improvements of \$6,285 at June 30, 19X1 consists of contributions receivable and government grants receivable which came due when expenses were made for the grant purposes.

Note 7—Additional Cash Flow Information

	<u>19X2</u>	<u>19X1</u>
<i>Noncash Financing Activities</i>		
Capital lease obligation incurred for equipment	\$21,368	—
<i>Additional Cash Payment Information</i>		
Interest paid	\$18,493	\$14,633

Note 8—Subsequent Event

On August 1, 19X2, a fire seriously damaged one floor of CSC's building facility.

Some client services have been temporarily suspended until reconstruction of the floor can be completed. Suspension of these client services has resulted in a monthly decrease in revenues of approximately \$18,000. Insurance proceeds are expected to cover all construction costs and replacement of the majority of the contents. CSC is actively seeking community support to supplement insurance proceeds and any loss associated with the replacement of contents is undeterminable at this time. Completion of construction and resumption of services are expected to take place in March, 19X3.

EXHIBIT 3E—SAMPLE COMMUNITY SERVICES CENTER

.15

Schedule of Federal Awards

Year Ended June 30, 19X2

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<i>U.S. Department of Housing and Urban Development</i>		
Direct Program:		
Supplemental Assistance for Facilities to Assist the Homeless	14.231	\$ 99,617
<i>U.S. Department of Agriculture</i>		
Passed through the New Jersey Department of Social Services:		
Food Distribution	93.672	4,781
<i>Federal Emergency Management Agency</i>		
Passed through the Hanlin Local (FEMA) Board:		
Emergency Food and Shelter National Board Program	12.571	20,909
<i>U.S. Department of Health and Human Services</i>		
Passed through the New Jersey Department of Health—		
Division of Maternal Child and Family Health:		
Preventive Health and Health Services Block Grant—Sexual		
Assault Prevention and Services to Victims	16.721	6,894
Passed through the New Jersey Department of Social Services—		
Division of Family Services:		
Family Violence Prevention and Services	93.991	15,847
Total U.S. Department of Health and Human Services		22,741
<i>U.S. Department of Housing and Urban Development</i>		
Passed through the New Jersey Department of Social Services—		
Division of Family Services and through Treeland County,		
Missouri:		
Emergency Shelter Grant Program of the Stewart B. McKinney		
Homeless Assistance Act	10.550	14,615
<i>U.S. Department of Justice</i>		
Passed through the New Jersey Department of Public Safety:		
Victims of Crime Act of 19W4	27.632	38,820
Total Federal Awards		\$201,483

EXHIBIT 4—FOUNDATION

EXHIBIT 4A—SAMPLE FOUNDATION

.16

Balance Sheet

June 30, 19X2

	<i>Expendable Funds</i>			<i>Nonexpendable Fund</i>	<i>Total All Funds</i>
	<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>	<i>Endowment</i>	
Assets					
Cash	\$ 1,540	\$ 16,380	\$ 17,920	\$ —	\$ 17,920
Interest receivable	14,711	39,110	53,821	—	53,821
Investments, at cost (Note 2)	1,162,433	524,591	1,687,024	1,451,243	3,138,267
Property held for investment (Note 3)	16,875	—	16,875	102,600	119,475
Due from trusts	43,927	—	43,927	—	43,927
Due from other funds	2,600	—	2,600	—	2,600
Total Assets	<u>\$1,242,086</u>	<u>\$580,081</u>	<u>\$1,822,167</u>	<u>\$1,553,843</u>	<u>\$3,376,010</u>
Liabilities and Fund Balance					
Due to XYZ College	\$ 10,000	\$ 89,097	\$ 99,097	\$ —	\$ 99,097
Due to other funds	—	—	—	2,600	2,600
Deferred amounts (Note 4)	—	490,984	490,984	—	490,984
Total liabilities	<u>10,000</u>	<u>580,081</u>	<u>590,081</u>	<u>2,600</u>	<u>592,681</u>
Fund Balances:					
Restricted	—	—	—	1,551,243	1,551,243
Unrestricted:					
Designated (Note 5)	278,690	—	278,690	—	278,690
Undesignated	953,396	—	953,396	—	953,396
Total Fund Balances	<u>1,232,086</u>	<u>—</u>	<u>1,232,086</u>	<u>1,551,243</u>	<u>2,783,329</u>
Total liabilities and fund balances	<u>\$1,242,086</u>	<u>\$580,081</u>	<u>\$1,822,167</u>	<u>\$1,553,843</u>	<u>\$3,376,010</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT 4B—SAMPLE FOUNDATION

.17

Statement of Support, Revenues, Expenses, and Capital Additions

Year Ended June 30, 19X2

	<i>Expendable Funds</i>			<i>Nonexpendable Fund</i>	<i>Total</i>
	<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>	<i>Endowment</i>	<i>All Funds</i>
Support and revenues:					
Contributions	\$300,712	\$ 48,696	\$394,408	\$ —	\$349,408
Earnings on investments	171,113	108,389	279,502	—	279,502
Total support and revenues	<u>471,825</u>	<u>157,085</u>	<u>628,910</u>	<u>—</u>	<u>628,910</u>
Expenses:					
Scholarships awarded	235,775	60,174	295,949	—	295,949
Executive salaries	61,074	—	61,074	—	61,074
Executive travel and membership	2,473	—	2,473	—	2,473
Faculty support	29,103	—	29,103	—	29,103
Fund drives	22,400	—	22,400	—	22,400
College departments support	18,058	—	18,058	—	18,058
Designated gifts to XYZ College	42,990	96,911	139,901	—	139,901
Cultural activities support	9,376	—	9,376	—	9,376
Miscellaneous	21,897	—	21,897	—	21,897
Total expenses	<u>443,146</u>	<u>157,085</u>	<u>600,231</u>	<u>—</u>	<u>600,231</u>
Excess of support and revenues over expenses before capital additions	28,679	0	28,679	—	28,679
Capital additions:					
Contributions	<u>—</u>	<u>—</u>	<u>—</u>	<u>52,741</u>	<u>52,741</u>
Excess of support and revenues over expenses after capital additions	<u>\$ 28,679</u>	<u>\$ 0</u>	<u>\$ 28,679</u>	<u>\$52,741</u>	<u>\$ 81,420</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT 4C—SAMPLE FOUNDATION

.18

Statement of Changes in Fund Balance

Year Ended June 30, 19X2

	<i>Expendable Funds</i>			<i>Nonexpendable Fund</i>	<i>Total All Funds</i>
	<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>	<i>Endowment</i>	
Fund balance, beginning of year	\$1,203,407	\$0	\$1,203,407	\$1,498,502	\$2,701,909
Excess of support and revenues over expenses after capital additions	28,679	0	28,679	52,741	81,420
Fund balance, end of year	<u>\$1,232,086</u>	<u>\$0</u>	<u>\$1,232,086</u>	<u>\$1,551,243</u>	<u>\$2,783,329</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT 4D—SAMPLE FOUNDATION

.19

Statement of Cash Flows

Year Ended June 30, 19X2

	<i>Expendable Funds</i>			<i>Nonexpendable Fund</i>	<i>Total All Funds</i>
	<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>	<i>Endowment</i>	
Cash flows from operating activities					
Excess of support and revenues over expenses after capital additions	\$ 28,679	\$ —	\$ 28,679	\$ 52,741	\$ 81,420
Changes in:					
Interest receivable	(29)	(18,469)	(18,498)	—	(18,498)
Due from trusts	(43,927)	—	(43,927)	—	(43,927)
Due to XYZ College	10,000	17,097	27,097	—	27,097
Deferred amounts	—	146,107	146,107	—	146,107
Net cash provided by (used in) operating activities	(5,277)	144,735	139,458	52,741	192,199
Cash flows from investing activities					
Purchases of investments	(894,574)	(403,767)	(1,298,341)	(1,119,426)	(2,417,767)
Sales of investments	900,156	274,748	1,174,904	1,066,685	2,241,589
Net cash provided by (used in) investing activities	5,582	(129,019)	(123,437)	(52,741)	(176,178)
Increase in cash	305	15,716	16,021	0	16,021
Cash, beginning of year	1,235	664	1,899	0	1,899
Cash, end of year	\$ 1,540	\$ 16,380	\$ 17,920	\$ 0	\$ 17,920

The accompanying notes are an integral part of these financial statements.

EXHIBIT 4E—SAMPLE FOUNDATION

.20

Notes to Financial Statements

June 30, 19X2

Note 1—Organization and Summary of Significant Accounting Policies

Nature of Entity

The Sample Foundation ("Foundation") is a not-for-profit corporation organized to foster, cooperate, and assist in the growth, development, and advancement of XYZ college.

Funding Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund and all financial transactions have been recorded and reported by fund group.

The assets, liabilities, fund balances, support, revenues, expenses and capital additions of the Foundation are reported in three self-balancing fund groups as follows:

Unrestricted Expendable Fund

Restricted Expendable Fund

Endowment Fund

Unrestricted and restricted expendable funds are available for support of the Foundation's activities and operations. The Endowment Fund represents resources restricted by gift instruments requiring that the principal be invested and only the income be used.

Restricted Resources

Operating funds, restricted by the donor for particular operating purposes, are deemed to be earned and reported as revenues of the Restricted Expendable Fund when the Foundation has incurred expenses in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

Income Taxes

The Foundation is exempt from income taxes under the Internal Revenue Code and similar provisions of the State Code. Therefore, no provision for income taxes has been made.

Gifts of Nonmonetary Items

Donations of securities, land, equipment and other nonmonetary items are recorded at estimated fair value when received.

Note 2—Investments

Investments of the individual funds are combined to form a pool of investments which is managed by ABC State Bank. Income earned on investments is allocated, based on cost, to the unrestricted and restricted expendable funds with earnings of the endowment investments being included with the restricted funds. Investments of the pooled accounts at June 30, 19X2, are as follows:

	<u>Carrying Value</u>	<u>Market Value</u>
Common stocks	\$1,083,751	\$1,311,587
Convertible preferred stocks	5,247	2,987
Convertible debentures	28,875	29,450
U.S. Treasury and federal agency bonds	1,334,007	1,417,830
Corporate bonds	257,271	260,737
Certificates of deposit	429,116	435,376
	<u>\$3,138,267</u>	<u>\$3,457,967</u>

Note 3—Property Held for Investment

Property valued at \$100,000 was donated to the Foundation in December 19W2 and property valued at \$16,875 was donated in December 19W6. During 19X0, \$2,600 was expended for site improvement on the first property. The proceeds from the sale of the first property are to be set aside in a nonexpendable endowment fund, the income of which is to be expended for such purposes as are consistent with the principles and objectives of the Foundation. The proceeds from the sale of the latter property will be unrestricted.

Total property held for investment at June 30, 19X2	<u>\$119,475</u>
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Note 4—Deferred Amounts

Activity for the year is summarized as follows:

Balance, July 1, 19X1	\$344,877
Additions:	
Contributions	95,479
Earnings on investments	207,713
Deductions:	
Restricted expenses	<u>(157,085)</u>
Balance, June 30, 19X2	<u>\$490,984</u>

Note 5—Designated Fund Balance

Designated fund balances at June 30, 19X2, are:

Science Lab Fund	\$ 24,332
John Crust Memorial Fund	48,235
Phon-A-Thon Designations	12,891
Business School Fund	872
Smith Estate Fund	<u>192,360</u>
	<u>\$278,690</u>

Note 6—Funds Held in Trust by Others

The Foundation is a beneficiary of a trust established by the David and Martha Smith estate. The Foundation is to receive one-half of the income to be distributed on a quarterly basis. Earnings for the year totaled \$58,638 and will be used to fund general scholarships.

The Foundation is the beneficiary of the earnings on the Adam Glick Trust Fund. The money received is used to provide scholarships for students pursuing a degree in Business. Earnings totaling \$63,873 were received during the year ended June 30, 19X2.

Note 7—Pension Plan

The Foundation has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the last five years of employment. The Foundation's funding policy is to contribute annually at a rate that is intended to remain a level percentage of compensation for the covered employees (presently 12%). Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The following table sets forth the plan's funded status and amounts recognized in the foundation's financial statements at June 30, 19X2:

	<i>June 30, 19X2</i>
Service cost-benefits earned during the year	\$ XX,XXX
Interest cost on projected benefit obligation	XX,XXX
Actual return on plan assets	(XX,XXX)
Net asset gain (loss) deferred for later recognition	(XX,XXX)
Amortization of unrecognized net asset	(XX,XXX)
Net periodic pension income	(XX,XXX)
Funded status of plan:	
Actuarial present value of benefit obligation	
Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X2	(XX,XXX)
Projected benefit obligation for service rendered to date	(XX,XXX)
Assets available for benefits	
Plan assets at fair value, primarily listed stock and U.S. government securities	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	XXX
Unrecognized net assets at July 1, 19X0, being recognized over XX years	(XX,XXX)
Prepaid pension cost included in other assets	\$ XX,XXX

The weighted-average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X2, \$X,XXX of the vested benefit portion of the projected benefit obligation was settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump-sum payments for certain terminated participants. As a result, the Foundation recognized gains of \$X,XXX in 19X2.

Note 8—Postretirement Health Care and Life Insurance Benefits

The Foundation sponsors employee postretirement health care and life insurance plans and contributes toward the annual cost of retirees remaining in these plans. Expense for these plans, recognized on the cash basis, was \$15,000 for the year ended June 30, 19X2.

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS No. 106). SFAS No. 106 requires that, beginning no later than the Foundation's fiscal year ending June 30, 19X6, the cost of providing retiree health care and life insurance benefits is to be recognized during the years that service is rendered by employees expected to receive benefits under the plans. The Foundation can elect to record the cumulative effect of the accounting change as a charge against income when SFAS No. 106 is adopted or, alternatively, on a deferred basis as part of future annual benefit costs.

The Foundation is continuing to evaluate various alternative arrangements for providing these benefits. Based on the analyses to date, the Foundation believes the adoption of SFAS No. 106 could result in charges to expense of between 5 and 12 times current expense, assuming SFAS No. 106 is adopted on a deferred basis.

Note 9—Subsequent Event

The Foundation is the defendant in a lawsuit filed in August 19X2 that asserts damage to property and seeks damages of \$86,000. The lawsuit is in the discovery stage and no estimate of the eventual outcome is presently determinable. Management believes that the Foundation has strong defenses against the claims and intends to vigorously defend the suit. No provision has been made in the financial statements for any adverse results from this litigation.

EXHIBIT 5—VOLUNTARY HEALTH AND WELFARE ORGANIZATION

.21

Independent Auditor's Report

[Addressee]

We have audited the accompanying balance sheets of Sample Voluntary Health and Welfare Organization as of December 31, 19X2 and 19X1, and the related statements of support, revenues, expenses, and changes in fund balances and of functional expenses for the year ended December 31, 19X2. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Voluntary Health and Welfare Organization as of December 31, 19X2 and 19X1, and the results of its operations and the changes in its fund balances for the year ended December 31, 19X2, in conformity with generally accepted accounting principles.

[Signature]

[Date]

EXHIBIT 5A—SAMPLE VOLUNTARY HEALTH AND WELFARE ORGANIZATION

.22

Balance Sheets

December 31, 19X2 and 19X1

	<i>Current Funds, Unrestricted</i>	
	<i>19X2</i>	<i>19X1</i>
Assets		
Cash	\$2,207,000	\$2,530,000
Investments (Note 2)		
For long-term purposes	2,727,000	2,245,000
Other	1,075,000	950,000
Pledges receivable less allowance for uncollectibles of \$105,000 and \$92,000	475,000	363,000
Inventories of educational materials, at cost	70,000	61,000
Accrued interest, other receivables and prepaid expenses	286,000	186,000
Total	<u>\$6,840,000</u>	<u>\$6,335,000</u>
Liabilities and Fund Balances		
Accounts payable	148,000	139,000
Research grants payable	596,000	616,000
Contributions designated for future periods	245,000	219,000
Total liabilities and deferred revenues	<u>989,000</u>	<u>974,000</u>
Fund balances		
Designated by the governing board for:		
Long-term investments	2,800,000	2,300,000
Purchases of new equipment	100,000	—
Research purposes (Note 3)	1,152,000	1,748,000
Undesignated, available for general activities (Note 4)	1,799,000	1,313,000
Total fund balances	<u>5,851,000</u>	<u>5,361,000</u>
Total	<u>\$6,840,000</u>	<u>\$6,335,000</u>
Assets	<i>Restricted</i>	
Cash	3,000	5,000
Investments (Note 2)	71,000	72,000
Grants receivable	58,000	46,000
Total	<u>\$ 132,000</u>	<u>\$ 123,000</u>
Liabilities and Fund Balances		
Fund balances		
Professional education	84,000	—
Research grants	48,000	123,000
Total	<u>\$ 132,000</u>	<u>\$ 123,000</u>

(continued)

The accompanying notes are an integral part of these financial statements.

EXHIBIT 5A—SAMPLE VOLUNTARY HEALTH AND WELFARE ORGANIZATION

.23

Balance Sheets—continued

December 31, 19X2 and 19X1

Assets

Land, Building and Equipment Fund

	<i>19X2</i>	<i>19X1</i>
Cash	\$ 3,000	\$ 2,000
Investments (Note 2)	177,000	145,000
Pledges receivable, less allowance for uncollectibles of \$7,500 and \$5,000	32,000	25,000
Land, buildings and equipment, at cost less accumulated depreciation of \$296,000 and \$262,000 (Note 5)	516,000	513,000
Total	<u>\$ 728,000</u>	<u>\$ 685,000</u>

Liabilities and Fund Balances

Mortgage payable, 8% due 19XX	<u>32,000</u>	<u>36,000</u>
Fund balances:		
Expended	484,000	477,000
Unexpended—restricted	212,000	172,000
Total fund balances	<u>696,000</u>	<u>649,000</u>
Total	<u>\$ 728,000</u>	<u>\$ 685,000</u>

Assets

Endowment Funds

Cash	4,000	10,000
Investments (Note 2)	1,944,000	2,007,000
Total	<u>\$1,948,000</u>	<u>\$2,017,000</u>
Liabilities and Fund Balance		
Fund balance	1,948,000	2,017,000
Total	<u>\$1,948,000</u>	<u>\$2,017,000</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT 5B—SAMPLE VOLUNTARY HEALTH AND WELFARE ORGANIZATION

.24

Statement of Support, Revenues, and Expenses, and Changes in Fund Balances

Year Ended December 31, 19X2 with Comparative Totals for 19X1

	19X2				Total All Funds	
	Current Funds		Land, Building and Equipment Funds	Endowment Funds	19X2	19X1
	Unrestricted	Restricted				
Public support and revenue						
Public support						
Contributions (net of estimated uncollectible pledges of \$195,000 in 19X2 and \$150,000 in 19X1)	\$3,764,000	\$162,000	\$ —	\$ 2,000	\$3,928,000	\$3,976,000
Contributions to building fund	—	—	72,000	—	72,000	150,000
Special events (net of direct costs of \$181,000 in 19X2 and \$163,000 in 19X1)	104,000	—	—	—	104,000	92,000
Legacies and bequests	92,000	—	—	4,000	96,000	129,000
Received from federated and nonfederated campaigns (which incurred related fund-raising expenses of \$38,000 in 19X2 and \$29,000 in 19X1)	275,000	—	—	—	275,000	308,000
Total public support	4,235,000	162,000	72,000	6,000	4,475,000	4,655,000
Revenue						
Membership dues	17,000	—	—	—	17,000	12,000
Investment income	98,000	10,000	—	—	108,000	94,000
Realized gain on investment transactions	200,000	—	—	25,000	225,000	275,000
Miscellaneous	42,000	—	—	—	42,000	47,000
Total revenue	357,000	10,000	—	25,000	392,000	428,000
Total support and revenue	4,592,000	172,000	72,000	31,000	\$4,867,000	\$5,083,000
Expenses						
Program services						
Research	1,257,000	155,000	2,000	—	1,414,000	1,365,000
Public health education	539,000	—	5,000	—	544,000	485,000
Professional education and training	612,000	—	6,000	—	618,000	516,000
Community services	568,000	—	10,000	—	578,000	486,000
Total program services	2,976,000	155,000	23,000	—	3,154,000	2,852,000
Supporting services						
Management and general	567,000	—	7,000	—	574,000	638,000
Fund raising	642,000	—	12,000	—	654,000	546,000
Total supporting services	1,209,000	—	19,000	—	1,228,000	1,184,000
Total expenses	4,185,000	155,000	42,000	—	\$4,382,000	\$4,036,000
Excess (deficiency) of public support and revenue over expenses	407,000	17,000	30,000	31,000		
Other changes in fund balances						
Property and equipment acquisitions from unrestricted funds	(17,000)	—	17,000	—		
Transfer of realized endowment fund appreciation	100,000	—	—	(100,000)		
Returned to donor	—	(8,000)	—	—		
Fund balances, beginning of year	5,361,000	123,000	649,000	2,017,000		
Fund balances, end of year	\$5,851,000	\$132,000	\$696,000	\$1,948,000		

The accompanying notes are an integral part of these financial statements.

EXHIBIT 5C—SAMPLE VOLUNTARY HEALTH AND WELFARE ORGANIZATION

.25

Statement of Functional Expenses

Year Ended December 31, 19X2 with Comparative Totals for 19X1

	19X2										
	Program Services					Supporting Services				Total Expenses 19X2 19X1	
	Research	Public Health Education	Professional Education and Training	Community Services	Total	Management and General	Fund Raising	Total			
Salaries	\$ 45,000	\$291,000	\$251,000	\$269,000	\$ 856,000	\$331,000	\$368,000	\$ 699,000	\$1,555,000	\$1,433,000	
Employee health and retirement benefits	4,000	14,000	14,000	14,000	46,000	22,000	15,000	37,000	83,000	75,000	
Payroll taxes, etc.	2,000	16,000	13,000	14,000	45,000	18,000	18,000	36,000	81,000	75,000	
Total salaries and related expenses	51,000	321,000	278,000	297,000	947,000	371,000	401,000	772,000	1,719,000	1,583,000	
Professional fees and contract service payments	1,000	10,000	3,000	8,000	22,000	26,000	8,000	34,000	56,000	53,000	
Supplies	2,000	13,000	13,000	13,000	41,000	18,000	17,000	35,000	76,000	71,000	
Telephone and telegraph	2,000	13,000	10,000	11,000	36,000	15,000	23,000	38,000	74,000	68,000	
Postage and shipping	2,000	17,000	13,000	9,000	41,000	13,000	30,000	43,000	84,000	80,000	
Occupancy	5,000	26,000	22,000	25,000	78,000	30,000	27,000	57,000	135,000	126,000	
Rental of equipment	1,000	24,000	14,000	4,000	43,000	3,000	16,000	19,000	62,000	58,000	
Local transportation	3,000	22,000	20,000	22,000	67,000	23,000	30,000	53,000	120,000	113,000	
Conferences, conventions, meetings	8,000	19,000	71,000	20,000	118,000	38,000	13,000	51,000	169,000	156,000	
Printing and publications	4,000	56,000	43,000	11,000	114,000	14,000	64,000	78,000	192,000	184,000	
Awards and grants	1,332,000	14,000	119,000	144,000	1,609,000	—	—	—	1,609,000	1,448,000	
Miscellaneous	1,000	4,000	6,000	4,000	15,000	16,000	21,000	37,000	52,000	64,000	
Total expenses before depreciation	1,412,000	539,000	612,000	568,000	3,131,000	567,000	650,000	1,217,000	4,348,000	4,004,000	
Depreciation of buildings and equipment	2,000	5,000	6,000	10,000	23,000	7,000	4,000	11,000	34,000	32,000	
Total expenses	\$1,414,000	\$544,000	\$618,000	\$578,000	\$3,154,000	\$574,000	\$654,000	\$1,228,000	\$4,382,000	\$4,036,000	

The accompanying notes are an integral part of these financial statements.

EXHIBIT 5D—SAMPLE VOLUNTARY HEALTH AND WELFARE ORGANIZATION

.26

Notes to Financial Statements

December 31, 19X2

Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Voluntary Health and Welfare Organization (“Organization”) have been prepared on the accrual basis and include the accounts of the Organization and its affiliated chapters.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts of the Organization are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the Organization are reported in three self-balancing fund groups, as follows:

- Current funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of operations.
- Land, building, and equipment funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

Expendable Restricted Resources

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Funds restricted by the donor, grantor, or other outside party for use in future periods are reported as support in the period in which the donor has specified the funds should be used. Such amounts received but not yet used are reported as contributions designated for future periods.

Other Matters

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the current unrestricted fund or, if restricted, as deferred amounts until the terms of the restriction have been met.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, investments, and pledges and grants receivable. The Organization places its cash with creditworthy, high-quality financial institutions. The Organization holds bonds and notes issued by the United States government

and financially strong corporations. By policy, these investments are kept within limits designed to prevent risks caused by concentration.

At December 31, 19X2, grants receivable of \$58,000 are from a private foundation.

Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the assets. Inventories are valued at the lower of cost (first-in, first-out) or market. Policies concerning donated materials and services are described in Note 7.

Note 2—Investments

Investments are stated at cost. Market values and unrealized appreciation (depreciation) at December 31, 19X2 and 19X1 are summarized as follows:

	(Thousands of Dollars)			
	December 31, 19X2		December 31, 19X1	
	<u>Quoted Market Value</u>	<u>Unrealized Appreciation</u>	<u>Quoted Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Current unrestricted funds				
For long-term purposes	\$2,735	\$ 8	\$2,230	\$ (15)
Other	1,100	25	941	(9)
Current restricted funds	73	2	73	1
Endowment funds	2,125	181	2,183	176
Land, building and equipment fund	184	7	153	8

Interfund transfers include \$100,000 for 19X2, which represents the portion of the realized appreciation (\$25,000 realized in the current year and \$75,000 realized in prior years) in endowment funds that, under the laws of (a state), were designated by the governing board for unrestricted operations. At December 31, 19X2, \$200,000 of realized appreciation was available in endowment funds, which the governing board may, if it deems prudent, also transfer to the unrestricted fund.

At December 31, 19X2, investments include \$1,500,000 of debt securities of highly leveraged computer technology companies.

Note 3—Research Grants

The Organization's awards for research grants-in-aid generally cover a period of one to three years, subject to annual renewals at the option of the governing board. At December 31, 19X2, \$1,748,000 had been designated by the board for research grants, of which \$596,000 had been awarded for research to be carried out within the next year.

Note 4—Proposed Research Center

The XYZ Foundation has contributed \$50,000 to the Organization with the stipulations that it be used for the construction of a research center and that construction of the facilities begin within four years. The Organization is considering the construction of a research center, the cost of which would approximate \$2,000,000. If the governing board approves the construction of these facilities, it is contemplated that its cost would be financed by a special fund drive.

Note 5—Pledges Receivable

At December 31, 19X2, pledges receivable include \$75,000 from one individual donor.

The Organization has elected to early adopt FASB Statement No. 107, *Disclosure about Fair Value of Financial Instruments*, for the year ended December 31, 19X2. At December 31, 19X2, pledges receivable include \$50,000 of noninterest bearing receivables due in one to five years, with a market value of approximately \$45,500, based on an imputed interest rate of 7 percent. The carrying amount of the remaining pledges receivable approximates fair value.

Note 6—Land, Buildings and Equipment and Depreciation

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Donated assets are capitalized at fair value at the date of the gift. The costs of buildings and equipment at December 31, 19X2 and 19X1, were as follows:

	<u>19X2</u>	<u>19X1</u>
Land	\$ 76,000	\$ 76,000
Buildings	324,000	324,000
Medical research equipment	336,000	312,000
Office furniture and equipment	43,000	33,000
Automobiles and trucks	33,000	30,000
Total costs	<u>812,000</u>	<u>775,000</u>
Less accumulated depreciation	<u>296,000</u>	<u>262,000</u>
Net	<u>\$516,000</u>	<u>\$513,000</u>

Note 7—Donated Materials and Services

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the Organization's program services and in its fund-raising campaigns.

Note 8—Mortgage Payable

Mortgage payable at December 31, 19X2 and 19X1, consists of the following:

	<u>19X2</u>	<u>19X1</u>
8% mortgage note payable in semiannual installments of \$3,029 (including principal and interest) to December 31, 19Y0 collateralized by equipment	<u>\$32,000</u>	<u>\$35,305</u>

Mortgage debt maturing in the next five years consists of:

19X3	\$ 3,568
19X4	3,859
19X5	4,176
19X6	4,515
19X7	4,882
Total	<u>\$21,000</u>

Based on the borrowing rates currently available to the Organization for bank loans with similar terms and maturities, the fair value of long-term debt at December 31, 19X2, was \$28,000.

Note 9—Leased Facilities

The Organization leases certain building facilities under noncancellable operating leases. Rent expense for the years ended December 31, 19X2 and 19X1, was \$92,000 and \$89,000, respectively. Minimum lease commitments in effect at December 31, 19X2, were as follows:

19X3	\$ 88,500
19X4	88,500
19X5	77,300
19X6	74,800
19X7	74,800
19X8 and beyond	193,200

Note 10—Pension Plan

The Organization has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the last five years of employment. The Organization's funding policy is to contribute annually at a rate that is intended to remain a level percentage of compensation for the covered employees (presently 12 percent). Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The following table sets forth the plan's funded status and amounts recognized in the Organization's financial statements at December 31, 19X2 and 19X1:

	<i>December 31,</i>	
	<i>19X2</i>	<i>19X1</i>
Funded status of plan:		
Actuarial present value of benefit obligations		
Accumulated benefit obligation, including vested benefits of \$196,000 and \$217,000 in 19X2 and 19X1, respectively	<u>\$ 276,000</u>	<u>\$ 258,000</u>
Projected benefit obligation for service rendered to date	<u>347,000</u>	<u>326,000</u>
Assets available for benefits		
Plan assets at fair value, primarily listed stocks and U.S. government securities	<u>426,000</u>	<u>415,000</u>
Plan assets in excess of benefit obligation	<u>79,000</u>	<u>89,000</u>
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	(111,000)	(141,000)
Unrecognized net assets at January 1, 19W8, being recognized over 15 years	<u>120,000</u>	<u>130,000</u>
Prepaid pension cost included in prepaid expenses	<u>\$ 88,000</u>	<u>\$ 78,000</u>

Net pension expense for 19X2 and 19X1 included the following components:

	<i>December 31,</i>	
	<i>19X2</i>	<i>19X1</i>
Service cost—benefits earned during the year	\$ 26,000	\$ 23,000
Interest cost on projected benefit obligation	39,000	35,000
Actual return on plan assets	(45,000)	(40,000)
Amortization of unrecognized net asset	<u>10,000</u>	<u>10,000</u>
Net periodic pension expense	<u>\$ 30,000</u>	<u>\$ 28,000</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation were 6% and 5%, respectively. The expected long-term rate of return on assets was 8%.

Note 11—Postretirement Benefits Other Than Pensions

The Organization sponsors a defined contribution postretirement health care plan covering substantially all of its employees. The Organization's contributions and cost are determined annually as 2% of each covered employee's salary and totalled \$28,000 in 19X2 and \$31,000 in 19X1.

Note 12—Allocation of Joint Costs

In 19X2 and 19X1, the Organization incurred joint costs of \$278,000 and \$264,000, respectively, for informational materials and activities that included fund-raising appeals. Those costs were allocated as follows:

	<u>19X2</u>	<u>19X1</u>
Public health education	\$ 139,000	\$ 106,000
Community services	77,000	92,000
Fund raising	<u>62,000</u>	<u>66,000</u>
	<u>\$ 278,000</u>	<u>\$ 264,000</u>

Note 13—Commitments and Contingencies

As part of one of its programs, the Organization guarantees certain grant recipient's loans from banks. At December 31, 19X2, those loan guarantees totalled \$1,000,000.

Note 14—Income Taxes

The Organization is a tax-exempt organization under the Internal Revenue Code and similar provisions of the State Code. Therefore, no provision for income taxes has been made.

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